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TEXTILE AND APPAREL TRADE ACT OF 1987

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDREDTH CONGRESS

FIRST SESSION

ON

S. 549

JULY 30, 1987

Printed for the use of the Committee on Finance

U.S. GOVERNMENT PRINTING OFFICE
83-158 WASHINGTON : 1988

For sale by the Superintendent of Documents, Congressional Sales Office
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5361-45

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TEXTILE AND APPAREL TRADE ACT OF 1987

THURSDAY, JULY 30, 1987

U.S. Senate,
Committee on Finance,
Washington, DC.

The Committee met, pursuant to notice, at 9:15 a.m., in room SD 215, Dirksen Senate Office Building, Hon. Lloyd Bentsen, chairman, presiding.

Present: Senators Bentsen, Moynihan, Baucus, Bradley, Mitchell, Riegle, Rockefeller, Daschle, Packwood, Roth, Danforth, Chafee, Heinz, Wallop, and Durenberger.

[The press release announcing the hearing and the prepared statements of Senators Bentsen, Mitchell, Pryor, Rockefeller, Roth, and Heinz follow:]

[Press Release H-58, June 24, 1987]

Finance Committee Announces Hearing on and Markup of S. 549, the Textile and Apparel Trade Act of 1987

Washington, DC.—Senator Lloyd Bentsen (D., Texas), Chairman of the Senate Finance Committee, announced Friday that the Committee will hold a hearing on S. 549, the Textile and Apparel Trade Act of 1987.

"Members of the Senate have shown a great deal of interest in the pending textile and apparel trade legislation. Fifty Senators are cosponsoring S. 549, including seven Members of the Finance Committee," Senator Bentsen said.

"The Finance Committee held three days of hearings during the last Congress regarding similar textile legislation and is quite familiar with the issues involved. Because the Senate sponsors of the current textile legislation agreed not to add it to the Senate trade bill, I assured them that I would move quickly toward Finance Committee consideration of the measure. Therefore, I am scheduling an additional hearing on the textile bill, to be followed immediately by a markup," Senator Bentsen said.

The hearing is scheduled for Thursday, July 30, 1987, at 9:15 a.m. in Room SD-215 of the Dirksen Senate Office Building.

Prepared Statement of Hon. Lloyd M. Bentsen

Today the Committee will be hearing testimony regarding the Textile and Apparel Trade Act of 1987, a bill that would limit U.S. imports of textiles, apparel and non-rubber footwear.

This bill has substantial support in Congress. Fifty Senators are cosponsors of the legislation, including seven on this committee. In the House, similar legislation has 244 cosponsors. In 1985, a majority of both Houses approved another textile trade bill, which was vetoed by the President.

The United States is a partner to an international agreement—The Multifiber Arrangement—that is supposed to promote orderly trade growth while avoiding disruption to domestic industries. In spite of that agreement, and in spite of President Reagan's pledge to hold import growth in line with the growth of the domestic market, U.S. imports of textiles and apparel more than doubled between 1982 and 1986. That is why this legislation has such wide support in the Congress.

In the case of non-rubber footwear, you have an industry that sought relief from import competition through U.S. trade laws—through section 201 of the Trade Act of 1974. The International Trade Commission found that the industry had been seriously injured by growing imports and recommended import quotas for 5 years. President Reagan refused to put it into place, even though the ITC felt it was justified. That is why the industry has come to Congress.

The trade woes experienced by domestic industries like textiles, apparel and footwear are exactly what prompted the Finance Committee to write major trade legislation this year. Just 10 days ago, the Senate approved an omnibus trade bill by a strong bipartisan vote. And we did it over some last minute lobbying by the administration.

As we considered that trade bill, it would have been fully within the rights of the Senate sponsors of the textile bill to offer their legislation as an amendment. But there were two things to consider. First, that textile trade legislation had already been vetoed by the President. And second, that the prospects for passing the textile bill this year would not be improved by including it in the omnibus trade bill. With those things in mind, the sponsors of the textile trade bill did not attempt to add it to the overall trade bill. In return, I committed to them that I would make my best efforts to report the textile bill from the Finance Committee so that it could be debated and considered by the full Senate.

That is why I scheduled this hearing today on the textile trade bill. Immediately following the last panel of witnesses, the committee will meet to markup the legislation. At that time, I will move that the Finance Committee report the bill to the full Senate without recommendation.

Today we will first hear from four of our distinguished colleagues who sponsored this legislation—Senators Thurmond, Hollings, Pell, and Sasser.

PREPARED STATEMENT OF SENATOR GEORGE J. MITCHELL

I am pleased to be a cosponsor of this legislation to respond to the serious threats facing our domestic textile, apparel, and footwear industries from ever increasing imports.

The bill before this committee is a modest, realistic, and carefully crafted effort to moderate import growth in the textile, apparel, and footwear industries.

It is not an unrealistic effort to roll back import levels as a means of artificially protecting uncompetitive domestic industries.

This is legislation which attempts to control the growth of imports into the United States and for that reason it raises a red flag, automatically inviting opposition from the Administration and from a number of other interests.

That is the case even though the bill introduced this year represents a substantial retreat from previous legislation designed to control the growth of imports. Proponents of this bill have attempted to respond to arguments against import controls by permitting existing import levels to continue while creating a mechanism to provide compensation to aggrieved exporting nations within the framework of our GATT obligations. Imports from all sources are treated alike in this legislation and the Administration is given broad flexibility in negotiating specific bilateral agreements.

In this debate, it must be remembered that international trade in textiles and apparel does not operate in anything approaching free market. It is fine for opponents of this legislation to repeat the slogan of free trade as some sort of economic salvation. But, that slogan has little relevance in the real world where every government aggressively manages trade in textile, apparel and footwear products.

The major exporting and importing nations have operated for many years under a regimen which controls the growth of imports. I am referring of course to the Multifiber Arrangement.

Unlike the United States, however, the other major importing nations have used the MFA to successfully control the growth of imports. In fact, the United States is one of the few nations which has left its market largely open to foreign sales of textile and apparel products. As a result of this disparity in the openness of markets, textile and apparel exports have tended to be channeled into the United States.

In addition, almost all of the major exporting nations engage in a multitude of programs designed to promote the establishment and foster the growth of textile, apparel and footwear exporting industries. These subsidy programs range from direct government grants, to preferential credit allocations, interest fee loans, special tax breaks, regulatory exemptions, and just about every other subsidy imaginable.

Finally, and I believe most importantly, almost all of the major exporting nations have adopted an array of import restrictions designed to keep imports out of their country to protect their domestic industry. The major textile and apparel exporting nations, all of whom are so outraged by attempts in this nation to control the growth of imports into this market, severely control the importation of textile and apparel products into their markets. Usually this takes the form of an absolute ban on imports. In other cases tariff rates are prohibitively high. Often, special, hard-to-get licenses must be obtained in order to import textile products. One of the largest exporting nations, permits imports only if approved by the trade association representing domestic producers.

It is against this background of pervasive government control over textile, apparel, and footwear trade, that this legislation must be considered. The United States has for many years been a part of this worldwide effort to control trade and textile and apparel products. We have controlled textile and apparel imports since at least 1956. We were an original party to the first Multifiber Arrangement in 1974 and worked to renew the MFA in 1977, 1981, and 1986. The United States has entered into bilateral agreements with 34 nations to control textile and apparel imports under the MFA.

However, those agreements have been largely ineffective in actually controlling imports into the United States. The numbers tell the story quite clearly.

Since 1980, textile and apparel imports have increased at an average annual rate of 20% causing more than 1,000 plants to shutdown at a cost of almost 300,000 manufacturing jobs. In terms of square yard equivalents, imports more than doubled between 1980 and 1985, increasing by 25% in 1983, 30% in 1984, and 7% in 1985.

In July of 1986 we renegotiated the Multifiber Arrangement and reached bilateral agreements with the major exporting nations to hold growth to 1% annually. Nevertheless, import levels continued to grow at a rate that far exceeded these negotiated limits. Imports were up another 17% last year in spite of the new MPA. So far this year, imports have increased almost 6% in terms of square yard equivalents. For the first five months of this year, the textile and apparel trade deficit grew by 22% over last year.

This legislation is simply an effort to establish an overall framework for controlling imports of textile and apparel products consistent with the major bilateral agreements that have been reached under the MFA. Those agreements have proven ineffective in controlling imports. It is now quite clear, from the evidence of the last several years, that bilateral agreements are not working. And, in the absence of an overall global import level, they can never work.

Although footwear imports are not covered under a multilateral import control program, the industry clearly qualifies for relief from imports under international law. No major manufacturing industry in the United States has been as impacted by imports over the last several years. The International Trade Commission recognized this in the 1985 "escape clause" case under Section 201 when it unanimously found the industry was injured by imports.

That conclusion was inescapable. It is difficult to imagine a more rapid destruction of a major U.S. industry. Since 1968, more than 600 footwear plants have been shut down in this nation, reducing manufacturing capacity by half. Three hundred plants have closed since Ronald Reagan's inauguration as President, causing 37 percent of all footwear workers nationwide to lose their jobs.

Imports, which had claimed half of the domestic market in 1981, increased their share to 81 percent of the U.S. market last year.

In 1985, when import penetration reached 75 percent, the ITC recommended that footwear imports be limited to 62 percent of the domestic market. Yet this legislation does not seek a rollback. It would simply preserve market share of the level of last year—permitting imports to continue to come in at last year's volume.

What other industry would agree to give up so much of its market. Clearly, this is a modest, realistic and non-protectionist effort to restore some element of predictability and fairness to a sector that has been battered by imports more severely than any other in recent years.

In my home state of Maine, thousands of jobs have been lost over the last several years in the textile, apparel, and footwear industries. As the largest footwear producing state in the nation, the demise of the footwear industry has been particularly painful for Maine. In the last three years, more than 40 percent of the men and women working in Maine footwear facilities have lost their jobs. Not too many years ago, 27,000 Maine citizens worked in the manufacture of shoes. As recently as 1983, over 17,000 workers were employed in 70 footwear plants in Maine. Employment is now down to a about 10,000 as many of those plants have shut down.

The same statistics holds true for the textile and apparel industry in Maine. This winter the entire state was affected by the closing of three apparel manufacturing plants. Men and women who worked in those plants for decades suddenly were without jobs.

Often these manufacturing facilities are in small rural communities in depressed parts of the state where there are few employment alternatives. The jobs lost are those of modest income, long-time workers, who have neither the training nor the resources to locate and begin a new career.

It is difficult for these workers to accept the circumstances that cause their unemployment. It is hard for them to understand why it is in our nation's best interest to be the sole open market in a world where every other government aggressively controls trade in textile, apparel, and footwear products.

The legislation before this committee attempts to answer the question of these unemployed workers in a modest and realistic way.

I want to thank the Chairman for holding these hearings and agreeing to report this legislation from the Finance Committee. I look forward to hearing today's testimony.

PREPARED STATEMENT OF SENATOR DAVID PRYOR

I am cosponsor of this legislation, which would set reasonable limits on imports of textiles, apparel and shoes, and have cosponsored similar legislation in previous Congresses.

I'll be the first to admit: I take a very parochial approach to this issue. Arkansas has been badly hurt by the tidal wave of imports we have experienced in recent years:

On one day late in 1984 my state lost 1886 jobs when plants in Morrilton and Osceola were shut down.

In 1970 Arkansas firms employed 4200 textile workers. Today that number is only 1800—a 60% drop in employment.

In 1970 there were 16,000 apparel workers. Today: only 10,700.

In 1970 we had 7590 shoe workers in 30 plants; today there are 4920 employed in only 19 plants.

Since 1982 we have had textile, apparel and footwear plant closings in Brinkley, Conway, Heber Springs, Tyronza, Little Rock, Stuttgart, Batesville, Crossett, Dermott, Forrest City, Leachville, Marianna, Mayflower, Beebe, Mena, Arkadelphia, Star City, Osceola, Piggott, Paragould Monticello, my home town of Camden, Hampton, Augusta, Morrilton, Menifee, Manila, Paris, and Pine Bluff.

Many of the Arkansas textile, apparel and footwear jobs are held by workers in depressed areas of the state, and these workers would have (and have had) an extremely difficult, if not impossible, time finding any new employment.

I should also point out that Arkansas has 550,000 acres of cotton planted this year, and 75% of the yield will be sold to U.S. textile producers

The Administration and some members of this committee have called this bill "protectionist." to be perfectly frank, given the strong Arkansas stake in these industries, I'd probably support a blatantly protectionist bill.

But S. 549 is a reasonable piece of legislation. It has addressed the objection raised against last year's bill that came within eight votes of becoming law. It simply seeks to establish an orderly trade flow so that U.S. firms can stay in business and so we can avoid losing another 300,000 U.S. jobs.

I'm pleased that the committee has decided to act on this measure today and hope that those members of Congress who have opposed this sort of legislation in the past take a fresh look at the bill we are proposing this year.

PREPARED STATEMENT OF SENATOR JOHN D. ROCKEFELLER IV

Mr. Chairman, I am an original co-sponsor of S. 549 and fully support this bill. I was also an original co-sponsor of the Jenkins Bill in the 99th Congress, supported it, and voted for it. If the Senate had the opportunity to vote to override the President's veto, I would have continued to support the bill.

In my state of West Virginia, there is very little in the way of textile or apparel manufacturing. There used to be, however, a thriving footwear industry in West Virginia. This industry has shrunk considerably in recent years because of cheap foreign imports. Employment in this sector in West Virginia is way down, and it continues to drop.

During the past year, another part to the footwear industy in West Vininia has been threated with destruction—the cut leather sole industy. Argentina, our major competitor, instituted a 12 percent export subsidy in 1986 on cut leather soles. Through this maneuver, plus other financial shenanigans, Argentina is now able to undersell us on cut leather soles. Before Argentina devised these unfair trade measures, the cut leather sole industry in West Virginia was able to compete. Now, it cannot. Senator Byrd and I have been working hard with the Administration to try to turn this situation around. We have been getting excellent cooperation from USTR and the Department of Commerce but absolutely no help from the Argentine Government. In fact, they have not even responded to our inquires. I consider it totally unacceptable for Argentina to institute practices that will, in a very short period of time, drive an efficient and competitive American industry out of business. I will not sit idly by while Argentina, through illegal, unfair, and improper actions, destroys an industry in West Virginia.

Although S. 549 will not help the cut leather sole industry, it will help the footwear industry survive in West Virginia. We cannot afford to lose more jobs in my state. Loss of jobs is particularly egregious and unacceptable when the cause is blatantly unfair trade practices. At the present time, less than 20% of the nonrubber footwear sold in this country is made in the United States. While I recognize that we cannot turn the clock back and increase this ratio to 50% or 75%, I will simply not stand by idly and watch as this figure increases and we lose more and more jobs. Therefore, I fully support S. 549 and expect it to pass both Houses of Congress overwhelmingly. If the President vetoes it, as we all expect, I hope we will override that veto and make this the law of the land.

PREPARED STATEMENT OF SENATOR WILLIAM V. ROTH, JR.

I do not see the current debate on S. 549 as a simple choice between free trade and protectionism. Rather, the issue involved in S. 549 is whether the U.S. Government will stand by commitments it has already made to the U.S. textile and apparel industries in existing trade agreements.

Long ago, the decision was made, not just in this country, but multilaterally, that it was necessary to control trade in textiles and apparel. If the administration had implemented the trade agreements that were based on this decision effectively, there would be no need for the Senate to consider legislation like S. 549. However these agreements were not adequately enforced, and there was an enormous surge in imports between 1980 and 1985. That increase had a devastating effect on many communities and caused hardship among textile and apparel workers.

Since 1985, the situation has improved somewhat. The administration has strengthened enforcement efforts to prevent evasion of quotas, negotiated significantly tighter controls on imports from major suppliers, such as Hong Kong, Taiwan and Korea, and completed the renegotiation of the multi-fiber agreement (MFA), the agreement which provides international sanction from U.S. import controls.

Despite these encouraging developments, I remain concerned that imports problems could arise again. Because the system of import-restraints is implemented on a product-by-product and country-by-country basis, there is no guarantee that imports will not surge again. The provisions on import surges in the new MFA, while better than the previous agreement, do not provide definitive assurance. Much continues to depend on the implementation of these textile agreements by the executive branch. For these reasons, I am a co-sponsor of S. 549. Which the committee will consider today.

I appreciate the chairman's convening this meeting, raising the Finance Committee's attention to the problems in textile and apparel trade.

PREPARED STATEMENT OF SENATOR JOHN HEINZ

This hearing and markup are in fulfillment of the Chairman's commitment to the senators from South Carolina made during the debate on the trade bill. As a cosponsor of the textile bill, I appreciate that commitment and welcome the Chairman's decision to move rapidly on the bill.

The Committee and the full Senate ought to be able to move quickly as well, since the issues have been so well framed and so thoroughly debated in past years. Indeed, it appears that very little has changed since the House sustained the President's veto of the textile bill a year ago next week.

Record trade deficits in textiles and apparel continue to accrue. May 1987 data—the latest available—show a 29% increase in that deficit over May, 1986, reaching a record level of $1.9 billion. This continues a year-long trend. The five month import figures also show a record level and a 5.5% increase over the same period the preceding year.

It has long been apparent to ths senator that Administration efforts to contain this problem at any level remotely related to the President's 1980 commitment have completely failed. And the reasons are simple:

We do not make enough calls.

We do not negotiate hard enough.

We regularly sacrifice this industry to other political objectives.

We do not adequately enforce the agreements we do make.

This latter problem has become particularly severe as the Administration attempts to negotiate additional quotas. The Customs Service has estimated that in 1984-85 it was able to detect only 27% of the fraud in textiles and apparel imports that was occuring. The problem of fraudulent Chinese textile visas in particular threatens to become a major scandal.

The decision of the Senator to adopt any amendment on customs fraud as part of the trade bill will help, but it is clear that in the textiles and apparel sector a comprehensive approach is needed.

CONCLUSION

It is equally clear that the Administration is not prepared to undertake comprehensive action. That leaves legislation as the only alternative. Mr. Chairman, I support this bill and urge the Committee to send it to the floor quickly.

The CHAIRMAN. Will those standing please be seated, and those conversing please cease conversation. The hearing was scheduled to start at 9:15, and that time has arrived.

Let me state that we have quite a number of Senators who desire to speak, and we have an extensive list of witnesses. Time will be short, and I would ask that restraint be exercised, with the possible exception of the two sponsors of the legislation.

Let me further state that this particular bill has very substantial support in the United States Senate. You have 50 Senators who are cosponsors of the legislation including seven on this Committee. In the House you have similar legislation which has 244 cosponsors. In 1985, you had a majority of both houses that approved a textile trade bill, that was subsequently vetoed by the President.

Today we are considering the Textile and Apparel Trade Act of 1987. This is a bill that would limit U.S. imports of textiles, apparel, and non-rubber footwear.

The United States is a partner to an international agreement, the Multifiber Agreement, that is supposed to promote orderly trade growth while avoiding disruption to the domestic industries. In spite of that agreement, and in spite of the President's pledge to hold import growth in line with the growth of the domestic market, U.S. imports of textiles and apparel more than doubled between 1982 and 1986. That is why this legislation has wide support in the United States Congress.

In the case of non-rubber footwear, you have an industry that sought relief from import competition through U.S. trade laws—through Section 201 of the Trade Act of 1974. The International Trade Commission found that the industry had been seriously injured by growing imports and recommended import quotas for five years. President Reagan refused to put quotas into place, even though the ITC felt they were justified. That is why this industry has come to Congress.

The trade woes experienced by domestic industries like textiles, apparel and footwear are exactly what prompted the Finance Committee to write major trade legislation this year. Just ten days ago, the Senate approved an Omnibus Trade Bill by a strong bipartisan vote, despite last minute lobbying against it by the Administration.

As we considered that trade bill, it would have been fully within the rights of the sponsors of this particular piece of legislation to bring it forth as an amendment to that trade bill. But we had two things to consider: First, that textile trade legislation had already been vetoed by the President; and, second, that the prospects for passing the textile bill this year would not be improved by including it in the Omnibus Trade Bill. Now, with those things in mind, the sponsors of the textile bill agreed not to attach it to the trade bill. And in return, I committed to them that I would make my best efforts to report the textile bill from the Finance Committee so that it could be debated and considered by the full Senate.

That is why I scheduled this hearing today on the textile trade bill. Immediately following the last panel of witnesses, the committee will meet to mark up the legislation. At that time, I will move that the Finance Committee report the bill to the full Senate without recommendation.

I would like to defer now to the distinguished ranking member for the Minority, Senator Packwood.

Senator **Packwood**. Thank you, Mr. Chairman. You also phrased very accurately the situation involving this textile bill: The principal sponsors were very gracious in not adding it to the trade bill when they could have; and, in exchange, I did join Senator Bentsen in indicating that we would attempt to send the bill out. I am sure it will get out of committee, and it will have a full and fair battle on the Senate floor at some stage.

During these past years as we considered the trade bill, the Israeli Free Trade Agreement, the approval of the Canadian Free Trade negotiations, I think on occasion we have overlooked one question that we should be asking perpetually: Are we going to try, by and large, as a country to protect most of the industries that exist in this country against fair competition? I am not talking about unfair competition. Against fair competition from abroad? Or are we going to adopt a policy that says there are some industries that perhaps should be allowed to go to other countries, so that they can earn money to buy goods from this country? We are not going to solve our trade deficit problem unless countries overseas can buy things from us, and they can only buy things from us if they can produce something that they can sell for dollars which they use, in turn, to buy products.

I make these comments not particularly with the textile industry in mind; but I think at some stage we have to ask ourselves: Is our policy going to be one of international fair competition, or is it going to be one principally of domestic protection? If it is the latter, then I think we are dooming ourselves to a perpetual situation of higher consumer prices and eventually shoddier products. If it is the former, international "fair" competition, I am quite confident the United States can do well in the international competitive market.

The **Chairman**. Thank you very much.

We are fortunate to have with us two of the principal sponsors of this piece of legislation. The first witness will be the Senior Senator from the State of South Carolina, who has been long allied with this issue and has been a leading proponent of this piece of legislation, Senator Thurmond.

STATEMENT OF HON. STROM THURMOND, U.S. SENATOR FROM SOUTH CAROLINA

Senator THURMOND. Mr. Chairman and Senator Packwood, I would like to thank you and the other distinguished members of this committee for giving us the opportunity to testify in favor of S. 549, the Textile and Apparel Trade Act of 1987. It is most appropriate that this committee hold hearings on this vital legislation so soon after passage of major trade legislation by the Senate.

I have a Judiciary Committee meeting after this and may not stay for the entire hearing, but I want you to know we appreciate your holding this hearing. We will cooperate in every way we can.

Passage of the major trade bill is a step in the right direction toward solving the trade problems facing this nation. But an important part of solving our trade problems includes passage of the Textile Bill. Over two million jobs in the textile and apparel industry, more than the steel and the automobile industries combined, are at stake. Without passage of this bill, we simply are exporting these jobs to foreign competitors, making them stronger at our expense.

Mr. Chairman, as this committee begins consideration of S. 549, I believe you will find the most recent textile and apparel trade statistics alarming—I repeat, alarming. Although we heard many, many statistics quoted during the Senate's consideration of the trade bill, I am compelled to quote the most recent ones relating to textile and apparel trade released by the Commerce Department. Figures released by Commerce show that for January through May, the textile and apparel trade deficit increased by 22 percent over the same period last year, to a new record-breaking $9.6 billion—a $1.7 billion increase over last year. At this rate, the textile and apparel trade deficit for 1987 will reach an unbelievable $23 billion.

As dismal as these statistics are, there is more bad news for the textile industry. Measured in square yards, textile and apparel imports reached a record level for the first five months of this year; from January through May, textile and apparel imports totaled a massive 5.5 billion square yards—a five percent increase over the same period of last year.

The most astonishing fact is that these record levels were reached in spite of the Administration claims that they have negotiated tighter bilateral agreements with foreign importers. The truth is that the Administration has taken no effective action to assure the more than two million Americans employed in this industry that their jobs are secure. Unless Congress takes prompt action to stop the flood of textile and apparel imports, the devastation will drive this domestic industry to extinction—I repeat, to extinction. Some two million Americans employed in this industry could suffer the tragedy of losing their jobs.

Further dismal statistics make it clear that this possibility is becoming a reality. Over 1,000 textile and apparel plants have closed since 1980—I repeat, over 1,000 textile and apparel plants have closed since 1980. Some 300,000 textile and apparel jobs have been lost to imports in the last several years. Incredibly, one-half of all textile and apparel goods sold in the United States are made abroad—I will repeat that sentence: One-half of all textile and apparel goods sold in the United States are made abroad.

Along with these statistics, a recent study by the Office of Technology Assessment warrants serious consideration by the members of this committee. OTA was created in 1972 as an analytical arm of Congress. Its basic function is to help legislative policymakers anticipate and plan for the consequences of technological change and to examine its impact on our citizens. OTA provides Congress with independent and timely reports in many areas, one being the United States textile and apparel industry.

OTA recently issued a report entitled "The U.S. Textile and Apparel Industry: A Revolution in Progress." Its conclusions are most disturbing. This report concludes that, despite the optimism made possible by technical progress, U.S. textile and apparel firms are in danger. "In spite of these remarkable advances, the industry is gravely"—I repeat, gravely—"threatened."

The OTA report draws the following conclusion: "If penetration of U.S. apparel markets were to continue at the pace of the past decade, domestic sales of U.S. apparel firms would approach zero by the Year 2000, while two-thirds of the U.S. textile market would be served by foreign imports."

Now, Mr. Chairman, with this dangerous trend in mind, it is irresponsible for us as elected officials to stand by and fail to act when fellow Americans face such a bleak future. The livelihood of some two million American families depends on the textile mills, most of which are located in small towns across this country. When a textile mill shuts down, its closing is a disruptive, shocking, and awesome experience. To some, the pain can compare to the loss of a loved one. The adverse economic impact on a community resulting from the closing of a mill can be devastating. A plant closing causes permanent scars. The disappointment, disillusionment, and frustration is lasting.

Mr. Chairman, during consideration of the major trade bill, some argued that a global market approach will create new jobs in this country. The implication is that these new jobs will be filled by displaced textile and apparel workers. This is simply not the truth. New jobs in the utilities field, the health industry, or with legal or consulting firms offer no comfort to out-of-work textile employees. Their training and skills learned on the job are not transferrable to these other industries. If foreign imports put a textile or apparel worker in the unemployment line, there is no guarantee that he or she will find work elsewhere.

Before closing, I would like to briefly comment on several provisions included in S. 1420, the major Senate trade bill. Regarding that legislation, it was often described as a "generic" bill, one which provides no special protection to any particular industry. My review shows this is simply not the case. This bill provides protection and support for several domestic industries. One provision, somewhat similar to the textile bill, limits imports of lamb. This section mandates the imposition of lamb quotas which would prevent lamb imports from rising above 28.5 million pounds per year. This provision will protect the lamb industry from the prospect of greatly increased imports.

Another provision helps the domestic steel industry. It requires the United States Trade Representative to seek a bilateral agreement which restrains imports of welded steel fence panels, wire fabric, and welded steel wire mesh for concrete reinforcement.

Still another provision helps the telecommunications industry, by directing that negotiations be undertaken to require foreign countries to open their markets to U.S. telecommunications goods and services.

Yet another provision extends unemployment benefits under the Trade Adjustment Assistance Program to oil and gas workers who lose their jobs due to foreign imports.

Mr. Chairman, there are other provisions included in the major trade bill which time does not permit me to discuss. After a review of these special interest provisions, I want to make it clear that they may be worthwhile and needed to help many domestic industries. In view of these provisions included in the Senate trade bill, the argument that the "Textile and Apparel Trade Act of 1987" does not merit support because it provides assistance to a specific industry, lacks substance.

In closing, I urge you to look at this legislation with an open mind. A vote against it is a vote in favor of exporting some two million textile and apparel jobs to foreign countries. It is not right to turn our back on these dedicated Americans.

Again, I appreciate the opportunity to testify regarding this vital legislation, and thank you for your support when this bill come to the Senate.

Thank you very much, Mr. Chairman, and thank you, Senator Packwood, and I appreciate the other members of the committee who are here this morning.

The CHAIRMAN. Thank you, Senator. We will move right along here to the other major proponent of this piece of legislation, a very articulate advocate of this legislation who has been long in the fight, the distinguished Junior Senator from the State of South Carolina, Senator Hollings.

[Senator Thurmond's prepared statement follows:]

TESTIMONY BY SENATOR STROM THURMOND (R-S.C.) BEFORE THE SENATE FINANCE COMMITTEE, REFERENCE S.549 " THE TEXTILE AND APPAREL TRADE ACT OF 1987." DIRKSEN SENATE OFFICE BUILDING, ROOM 428, JULY 30, 1987.

MR CHAIRMAN:

I WOULD LIKE TO THANK THE DISTINGUISHED MEMBERS OF THIS COMMITTEE FOR GIVING ME THE OPPORTUNITY TO TESTIFY IN FAVOR OF S.549, THE TEXTILE AND APPAREL TRADE ACT OF 1987. IT IS MOST APPROPRIATE THAT THIS COMMITTEE HOLD HEARINGS ON THIS VITAL LEGISLATION SO SOON AFTER PASSAGE OF MAJOR TRADE LEGISLATION BY THE SENATE.

PASSAGE OF THE MAJOR TRADE BILL IS A STEP IN THE RIGHT DIRECTION TOWARDS SOLVING THE TRADE PROBLEMS FACING THIS NATION. BUT AN IMPORTANT PART OF SOLVING OUR TRADE PROBLEMS INCLUDES PASSAGE OF THE TEXTILE BILL. OVER TWO MILLION JOBS IN THE TEXTILE AND APPAREL INDUSTRY, MORE THAN THE STEEL AND THE AUTOMOBILE INDUSTRIES COMBINED, ARE AT STAKE. WITHOUT PASSAGE OF THIS BILL, WE SIMPLY ARE EXPORTING THESE JOBS TO FOREIGN COMPETITORS, MAKING THEM STRONGER AT OUR EXPENSE.

AS THIS COMMITTEE BEGINS CONSIDERATION OF S.549, I BELIEVE YOU WILL FIND THE MOST RECENT TEXTILE AND APPAREL TRADE STATISTICS ALARMING. ALTHOUGH WE HEARD MANY, MANY STATISTICS QUOTED DURING THE SENATE'S CONSIDERATION OF THE TRADE BILL, I AM COMPELLED TO QUOTE THE MOST RECENT ONES RELATING TO TEXTILE AND APPAREL TRADE RELEASED BY THE COMMERCE DEPARTMENT. FIGURES RELEASED BY COMMERCE SHOW THAT FOR JANUARY THROUGH MAY, THE TEXTILE AND APPAREL TRADE DEFICIT INCREASED BY 22 PERCENT OVER THE SAME PERIOD LAST YEAR TO A NEW RECORD-BREAKING $9.6 BILLION - A $1.7 BILLION INCREASE OVER LAST YEAR. AT THIS RATE, THE TEXTILE AND APPAREL TRADE DEFICIT FOR 1987 WILL REACH AN UNBELIEVABLE $23 BILLION!

AS DISMAL AS THESE STATISTICS ARE, THERE IS MORE BAD NEWS FOR THE TEXTILE INDUSTRY. MEASURED IN SQUARE YARDS, TEXTILE AND APPAREL IMPORTS REACHED A RECORD LEVEL FOR THE FIRST FIVE MONTHS OF THIS YEAR. FROM JANUARY THROUGH MAY, TEXTILE AND APPAREL IMPORTS TOTALED A MASSIVE 5.5 BILLION SQUARE YARDS, A 5 PERCENT INCREASE OVER THE SAME PERIOD LAST YEAR.

THE MOST ASTONISHING FACT IS THAT THESE RECORD LEVELS WERE REACHED IN SPITE OF THE ADMINISTRATION CLAIMS THAT THEY HAVE NEGOTIATED TIGHTER BILATERAL AGREEMENTS WITH FOREIGN IMPORTERS. THE

TRUTH IS THAT THE ADMINISTRATION HAS TAKEN NO EFFECTIVE ACTION TO ASSURE THE MORE THAN 2 MILLION AMERICANS EMPLOYED IN THIS INDUSTRY THAT THEIR JOBS ARE SECURE. UNLESS CONGRESS TAKES PROMPT ACTION TO STOP THE FLOOD OF TEXTILE AND APPAREL IMPORTS, THE DEVASTATION WILL DRIVE THIS DOMESTIC INDUSTRY TO EXTINCTION. SOME TWO MILLION AMERICANS EMPLOYED IN THIS INDUSTRY COULD SUFFER THE TRAGEDY OF LOSING THEIR JOBS.

FURTHER DISMAL STATISTICS MAKE IT CLEAR THAT THIS POSSIBILITY IS BECOMING A REALITY. OVER 1000 TEXTILE AND APPAREL PLANTS HAVE CLOSED SINCE 1980. SOME 300,000 TEXTILE AND APPAREL JOBS HAVE BEEN LOST TO IMPORTS IN THE LAST SEVERAL YEARS. INCREDIBLY, ONE-HALF OF ALL TEXTILE AND APPAREL GOODS SOLD IN THE UNITED STATES ARE MADE ABROAD.

ALONG WITH THESE STATISTICS, A RECENT STUDY BY THE OFFICE OF TECHNOLOGY ASSESSMENT (OTA) WARRANTS SERIOUS CONSIDERATION BY THE MEMBERS OF THIS COMMITTEE. OTA WAS CREATED IN 1972 AS AN ANALYTICAL ARM OF CONGRESS. ITS BASIC FUNCTION IS TO HELP LEGISLATIVE POLICYMAKERS ANTICIPATE AND PLAN FOR THE CONSEQUENCES OF TECHNOLOGICAL CHANGE AND TO EXAMINE ITS IMPACT ON OUR CITIZENS. OTA PROVIDES CONGRESS WITH INDEPENDENT AND TIMELY REPORTS IN MANY AREAS - ONE BEING THE U.S. TEXTILE AND APPAREL INDUSTRY.

OTA RECENTLY ISSUED A REPORT ENTITLED THE U.S. TEXTILE AND APPAREL INDUSTRY: A REVOLUTION IN PROGRESS. ITS CONCLUSIONS ARE MOST DISTURBING. THIS REPORT CONCLUDES THAT "DESPITE THE OPTIMISM MADE POSSIBLE BY TECHNICAL PROGRESS, U.S. TEXTILE AND APPAREL FIRMS ARE IN DANGER... IN SPITE OF THESE REMARKABLE ADVANCES, THE INDUSTRY IS GRAVELY THREATENED."

THE OTA REPORT DRAWS THE FOLLOWING CONCLUSION:

> ... IF PENETRATION OF U.S. APPAREL MARKETS WERE TO CONTINUE AT THE PACE OF THE PAST DECADE, DOMESTIC SALES OF U.S. APPAREL FIRMS WOULD APPROACH ZERO BY THE YEAR 2000, WHILE TWO-THIRDS OF THE U.S. TEXTILE MARKET WOULD BE SERVED BY [FOREIGN] IMPORTS.

WITH THIS DANGEROUS TREND IN MIND, IT IS IRRESPONSIBLE FOR US AS ELECTED OFFICIALS TO STAND BY AND FAIL TO ACT WHEN FELLOW AMERICANS FACE SUCH A BLEAK FUTURE. THE LIVELIHOOD OF SOME TWO MILLION AMERICAN FAMILIES DEPENDS ON THE TEXTILE MILL, MOST OF WHICH ARE

LOCATED IN SMALL TOWNS ACROSS THIS COUNTRY. WHEN A TEXTILE MILL SHUTS DOWN, ITS CLOSING IS A DISRUPTIVE, SHOCKING, AND AWESOME EXPERIENCE. TO SOME, THE PAIN CAN COMPARE TO THE LOSS OF A LOVED ONE. THE ADVERSE ECONOMIC IMPACT ON A COMMUNITY RESULTING FROM THE CLOSING OF A MILL CAN BE DEVASTATING. A PLANT CLOSING CAUSES PERMANENT SCARS. THE DISAPPOINTMENT, DISILLUSIONMENT, AND FRUSTRATION IS LASTING.

DURING CONSIDERATION OF THE MAJOR TRADE BILL, SOME ARGUED THAT A GLOBAL MARKET APPROACH WILL CREATE NEW JOBS IN THIS COUNTRY. THE IMPLICATION IS THAT THESE NEW JOBS WILL BE FILLED BY DISPLACED TEXTILE AND APPAREL WORKERS. THIS IS SIMPLY NOT THE TRUTH. NEW JOBS IN THE UTILITIES FIELD, THE HEALTH INDUSTRY, OR WITH LEGAL OR CONSULTING FIRMS OFFER NO COMFORT TO OUT-OF-WORK TEXTILE EMPLOYEES. THEIR TRAINING AND SKILLS LEARNED ON THE JOB ARE NOT TRANSFERABLE TO THESE OTHER INDUSTRIES. IF FOREIGN IMPORTS PUT A TEXTILE OR APPAREL WORKER IN THE UNEMPLOYMENT LINE, THERE IS NO GUARANTEE THAT HE OR SHE WILL FIND WORK ELSEWHERE.

BEFORE CLOSING, I WOULD LIKE TO BRIEFLY COMMENT ON SEVERAL PROVISIONS INCLUDED IN S.1420, THE MAJOR SENATE TRADE BILL. REGARDING THAT LEGISLATION, IT WAS OFTEN DESCRIBED AS A "GENERIC" BILL, ONE WHICH PROVIDES NO SPECIAL PROTECTION TO ANY PARTICULAR INDUSTRY. MY REVIEW SHOWS THIS IS SIMPLY NOT THE CASE. THIS BILL PROVIDES PROTECTION AND SUPPORT FOR SEVERAL DOMESTIC INDUSTRIES. ONE PROVISION, SOMEWHAT SIMILAR TO THE TEXTILE BILL, LIMITS IMPORTS OF LAMB. THIS SECTION MANDATES THE IMPOSITION OF LAMB QUOTAS WHICH WOULD PREVENT LAMB IMPORTS FROM RISING ABOVE 28.5 MILLION POUNDS PER YEAR. THIS PROVISION WILL PROTECT THE LAMB INDUSTRY FROM THE PROSPECT OF GREATLY INCREASED IMPORTS.

ANOTHER PROVISION HELPS THE DOMESTIC STEEL INDUSTRY. IT REQUIRES THE UNITED STATES TRADE REPRESENTATIVE TO SEEK BILATERAL AGREEMENTS WHICH RESTRAIN IMPORTS OF WELDED STEEL FENCE PANELS, WIRE FABRIC, AND WELDED STEEL WIRE MESH FOR CONCRETE REINFORCEMENT. STILL, ANOTHER PROVISION HELPS THE TELECOMMUNICATIONS INDUSTRY BY DIRECTING THAT NEGOTIATIONS BE UNDERTAKEN TO REQUIRE FOREIGN COUNTRIES TO OPEN THEIR MARKETS TO U.S. TELECOMMUNICATIONS GOODS AND SERVICES. YET ANOTHER PROVISION EXTENDS UNEMPLOYMENT BENEFITS UNDER

THE TRADE ADJUSTMENT ASSISTANCE PROGRAM TO OIL AND GAS WORKERS WHO LOSE THEIR JOBS DUE TO FOREIGN IMPORTS.

THERE ARE OTHER PROVISIONS INCLUDED IN THE MAJOR TRADE BILL WHICH TIME DOES NOT PERMIT ME TO DISCUSS. AFTER A REVIEW OF THESE "SPECIAL INTEREST" PROVISIONS, I WANT TO MAKE IT CLEAR THAT THEY MAY BE WORTHWHILE AND NEEDED TO HELP MANY DOMESTIC INDUSTRIES. IN VIEW OF THESE PROVISIONS INCLUDED IN THE SENATE TRADE BILL, THE ARGUMENT THAT THE "TEXTILE AND APPAREL TRADE ACT OF 1987" DOES NOT MERIT SUPPORT BECAUSE IT PROVIDES ASSISTANCE TO A SPECIFIC INDUSTRY, LACKS SUBSTANCE.

IN CLOSING, I URGE YOU TO LOOK AT THIS LEGISLATION WITH AN OPEN MIND. A VOTE AGAINST IT IS A VOTE IN FAVOR OF EXPORTING SOME 2 MILLION TEXTILE AND APPAREL JOBS TO FOREIGN COUNTRIES. IT IS NOT RIGHT TO TURN OUR BACK ON THESE DEDICATED AMERICANS.

AGAIN, I APPRECIATE THE OPPORTUNITY TO TESTIFY REGARDING THIS VITAL LEGISLATION.

STATEMENT OF HON. ERNEST F. HOLLINGS, U.S. SENATOR FROM SOUTH CAROLINA

Senator HOLLINGS. Thank you, Mr. Chairman and Senator Packwood and our other colleagues on the Finance Committee. We appreciate the understanding and the special hearing that you have given us.

As President Reagan says, "Here we go again." The erosion of the U.S. textile industry started back in the Fifties. I testified then before the Tariff Commission. At the time, Tom Dewey represented the Japanese. President Eisenhower assured us, "Don't worry, this problem is going to be solved; it is just temporary, and it will all be taken care of." Later, under President Kennedy, we had the Seven Point Program and were given the same types of assurances. Last year, we heard the same empty assurances from Ambassador Yeutter.

He said, "Now, this is a fine Multifiber Arrangement that we have. For Hong Kong we will permit a textile import growth of .5 percent, for Taiwan it will be 1 percent, and for Korea 1.5 percent." Well, from Hong Kong, instead of .5 percent it is 6 percent. From Taiwan, instead of the 1 percent, it is seven times that number; and of course instead of 1.5 percent from Korea it is practically 10 percent.

Today, we have reached a critical threshold. Fully 54 percent out of the U.S. apparel market is controlled by foreign producers. This committee recently found that, with respect to oil, if we reached a critical point where domestic oil consumption relies 50 percent on imports, we were going to trigger a 10-percent oil import fee. Well, in the apparel industry we have already passed that 50 percent threshold; we are at 54 percent.

If we look at the average between 1981 and 1986 there has been a 20-percent increase in textile and apparel imports. So, you assume a growth rate of just half that—10 percent—then by 1992 no less than 90 percent of all textiles in America will be imported textiles. In short, Mr. Chairman, we are looking at the programmed extinction—the phased liquidation—of the domestic U.S. textile and apparel industry.

The question, quite simply, is whether our government is going to sustain and maintain an industry fundamental to our national security. In 1961 we had a special Cabinet hearing system under which Labor, Treasury, State, Commerce, and Agriculture, in the course of hearings over a number of months, concluded that next to steel textiles and apparel are number two in the importance to our national security.

On the matter of consumer prices, back in 1974 men and boys garments sold at the domestic price of $4.7 per unit. The domestic article cost more. But today the imported article costs more. And my gracious, I can tell you how popular they are. I have here, and I ask consent that it be put in the record, a directive to the Airport Controllers in the Los Angeles area dated May 15. The directive sets forth a facility dress standards for control room personnel, acceptable dress standards on the wearing of jeans. I don't make this up. "Jordache, Calvin Klein, Sergio Valenti, Gloria Vanderbilt"—they are all acceptable. Then it lists as non-acceptable the American-made. The non-acceptable are Levi's, Lee, and Wrangler. President Reagan is out of uniform—he wears Levi's. [Laughter.]

They say we haven't modernized. We have modernized, Mr. Chairman, and I would ask to include as part of the record, the U.S. Textile and Apparel Industry Report by the nonpartisan Office of Technology Assessment. We have invested $12 billion over the last 10 years—$12 billion in textile industry modernization.

I would love to take members of Congress down to South Carolina and show them just how competitive we are, because I am thrilled by the strides we have made. I visited, for example, Daneo in Puson, Korea. They have 1000 women employees sitting in rows of three. Here is one group, sewing Bill Blass, and the next row is sewing Liz Claiborne, and the third row is sewing another brand. It is all being made in the same plant, with all of these different labels on it. But the young ladies come in, Senator Packwood, at $1.85 an hour, at age 18, 19, 20, and 21, to earn their dowry. I don't believe anybody in the room here is going to send their child at 18 years of age into a textile mill to earn their dowry; but that is the Asian culture. And the work there three or four years, and then they go back with their dowry and get married, and that's fine. But we cannot ask the American worker to work at such a wage. A fundamental of the American standard of living is at issue here.

The domestic industry is accused of making profits. Our profits did amount to 3.4 percent, compared to the industry average of 4.2. But textile profits for the first half of this year are down 24 percent.

Mr. Chairman, I would ask consent to include as part of the Finance Committee record the foreign regulations affecting U.S. textiles, 270 pages of regulations against us. Anybody who thinks we operate in a world of free trade will have their eyes opened by the reams of restrictions documented in this publication.

The CHAIRMAN. With no objection.

Senator HOLLINGS. I appreciate it very much.

A key issue, today, is whether or not the textile industry can afford to invest in modernization for the long run if they are going to be wiped out in the short run by predatory foreign producers. Consider our producers' dilemma. They know 54 percent of their business is already gone, and you are facing a steady erosion of market share at a rate of at least 10 and perhaps 20 percent per year, so that 90 percent of the domestic market share will be held by foreigners by 1992. If you are considering making your investment over a 5-year period, I would suggest you get into a different business. And a lot of them are doing that.

It is a very, very unfortunate thing, unless this Congress sobers up and begins to treat this issue seriously. The issue here is national security and jobs. 3,000 textile plants since 1980 have closed down, with the loss of 300,000 jobs. And bear in mind that the textile industry is a principal employer of women and minorities. You and I are constantly voting for jobs bills, jobs bills, and particularly those targeted toward women and minorities. Well, consider this a jobs bill. We have a fine textile industry that is productive and competitive, and it is time we treat it as such here in the national Congress.

Let me stop right there and answer any questions that you have.

The **Chairman**. Senator, you made some very effective points, but I am going to proceed through the list of Senators. We have six of them requesting to make their presentations this morning.

Knowing also the demands on your time—each of you—if any of you choose to leave before we get back to the questioning, it will be understood and accepted.

Senator Pell?

[Senator Hollings' prepared statement follows:]

Sen. Ernest F. Hollings
July 30, 1987

TESTIMONY IN SUPPORT OF THE TEXTILE AND APPAREL TRADE ENFORCEMENT ACT OF 1987 BEFORE THE SENATE FINANCE COMMITTEE

Mr. Chairman, I appreciate the opportunity to appear before the Finance Committee this morning.

The members of this committee -- in particular your skillful Chairman, Sen. Bentsen -- deserve great credit for passage of the Omnibus Trade Act earlier this month. It is landmark legislation and, if both its letter and spirit are embraced by the Administration, it will lead to very real improvements in our nation's trading posture.

However -- as this committee is well aware -- the Senate still faces unfinished business on the trade front. Senator Bentsen and I agreed that the issue of textiles and apparel would best be addressed through freestanding legislation, apart from the comprehensive trade bill. True to his word, the Senator from Texas promptly scheduled today's hearing, and I very much appreciate the Chairman's consideration and assistance.

Overview of S. 549

Mr. Chairman, I speak today on behalf of the 50 Senators who are cosponsoring S. 549, the Textile and Apparel Trade Enforcement Act of 1987. Like the Omnibus Trade Act, this is legislation whose time is long overdue, legislation whose time has come and gone and come again.

By way of introduction, permit me to synopsize briefly the bill's objectives and principal components. I think you will agree, this bill is remarkably simple and straightforward:

The Textile and Apparel Trade Enforcement Act has two goals: (1) to tie the growth of textile and clothing imports to the growth of the domestic U.S. market, thereby preventing the further decimation of domestic producers and American jobs. And (2) to prevent the outright extinction of the domestic nonrubber footwear industry.

To accomplish these goals, S. 549 would freeze imports under each category of textiles and textile products from all sources at 1987 levels. Beginning in the second year of the act, imports of textiles and apparel would be permitted to increase by 1 percent annually -- roughly equal to the growth rate of the domestic U.S. market. Likewise, in the first year of the act, imports of nonrubber footwear would be restricted to 1987 levels. The Administration would be responsible for prescribing regulations to implement the import limits, including regulations requiring reasonable spacing of imports over each year.

In accordance with the General Agreement on Tariffs and Trade, the President would be permitted to negotiate compensation -- in the form of 10 percent reductions in textile, tariff, and footwear tariffs -- with foreign nations that are adversely affected by the import limits.

In addition, the President would be required to report to Congress annually on the administration of the act.

Mr. Chairman, this is not the first textile bill to come before Congress. In 1968, I, along with Senator Cotton of New Hampshire, sponsored a textile bill that passed the Senate only to die on a procedural technicality in the House. In 1978, substantial majorities in both Houses passed another textile bill. President Carter vetoed it, but was spurred to toughen enforcement of our textile trade agreements. His efforts succeeded in largely stabilizing textile imports through the end of his term.

Regrettably, this was followed by the lax enforcement of the Reagan years and -- to no one's surprise -- an unprecedented surge in textile and apparel imports. Foreign producers seized over half of the U.S. textile and apparel market. As a consequence, some 3,000 U.S. firms have closed their doors. Nearly 300,000 American textile workers have lost their jobs.

In 1985, in response to this inundation of legal and illegal imports, Congress again passed a textile and apparel trade bill. I happen to think that that bill was a good one -- so did a total of 60 Senators and 262 Representatives, solid majorities in both Houses of Congress. But the will of those majorities was frustrated by the opposition of one man, Ronald Reagan.

So, as I said, the Textile and Apparel Trade Enforcement Act of 1987 is a bill whose time has come again. This is true not only because the objective circumstances of this industry cry out for relief as never before, but also because we have gone out of our way to address the principal criticisms of last year's bill. In contrast to the 1986 version, S. 549:

- Prescribes a global approach that does not single out or discriminate against specific countries;
- Reserves to the Executive Branch flexibility and discretion in administering the provisions of the act.
- Conforms to the requirements of Article XIX of GATT by including global quotas, compensation authority, and the requirement of a Congressional finding of injury;
- Does not call for rollbacks.

By incorporating these modifications in the current bill, we hope to persuade the President to join with us in a united front. However, should he continue in an obstructionist posture, I am confident that we have crafted a moderate, compromise bill that will command the support of veto-proof majorities in both Houses of Congress.

Broken Promises, Trashed Agreements

Mr. Chairman, for nearly seven years, now, we have suffered this Administration's passivity, its catalogue of excuses and false promises. They said American industry had to shape up and cut out the fat. So we restructured American industry from top to bottom, slashing employment throughout the manufacturing sector -- textiles is but one example. Yet the flood of imports has continued to swamp the U.S. market.

They said the dollar was overvalued. They reassured us that as the dollar fell, imports would fall. So Congress welcomed the Plaza Agreement of September 1985, and many applauded as Secretary Baker talked the dollar down. The dollar lost some 40 percent of its value against the yen through 1986. But, lo and behold, the import deluge continued. The U.S. textile trade deficit ballooned to a record $21.2 billion in 1986, and the overall trade deficit topped $170 billion.

They said, let the U.S. Trade Representative jawbone our partners into obeying American trade laws. Let him negotiate equitable and reasonable limits on imports into the U.S. market. So we watched the flurry of diplomatic activity; we listened to Mr. Yeutter's fine speeches. But we also noted with dismay the Customs Service's estimate that a whopping $5.5 billion in fraudulent and illegal textile-apparel imports poured across our borders in 1986 alone.

Likewise, we were heartened by President Reagan's personal pledge to Senator Thurmond that the growth of textile imports would be limited to the level of increase in domestic consumption. Mr. Reagan made this promise publicly during the 1980 Presidential campaign, and he repeated it in 1982. But while consumption increased at a snail's pace of less than two percent a year, imports have accelerated 150 percent.

Mr. Chairman, by any measure, this litany of false assurances and broken promises is extraordinary. Unfortunately, it is matched by an equally appalling record of illegal and predatory trade practices on the part of our so-called "partners." To list the full range of these abuses would be to threaten this committee with a filibuster -- which is not my intention. By way of example, however, I ask you to ponder our most recent three-year textile agreements with Hong Kong, Taiwan, and Korea. When those agreements were concluded, the Administration gushed with self-congratulation. This is the exact wording of a White House press release from August 1986:

> The new Multifibers Agreement, coupled with tougher bilateral agreements with major trading partners such as Taiwan and Hong Kong, will allow us to moderate growth in textiles and apparel imports without incurring reprisals against U.S. exports abroad. This is an orderly and positive program that stands in sharp contrast with the sledgehammer approach of the Textile and Apparel Trade Act [of 1986]. By renegotiating the MFA, we have provided them maximum possible protection for American textile workers without sacrificing jobs in our healthy export industries.

Well, let's look at the record: Those agreements with Hong Kong, Taiwan, and Korea permitted textile import growth rates of 0.5 percent, 1 percent, and 1.5 percent, respectively, over three years. They did, indeed, appear to create a framework for fair trade in textiles and apparel. The trouble is, in 1986 alone, the actual growth rates for

Hong Kong, Taiwan, and Korea were 6 percent, 7 percent, and 10 percent, respectively.

This same pattern has been repeated with agreement after agreement, with country after country. The treaties sound promising, but they are brazenly violated, and the word "enforcement" simply is not in the Administration's vocabulary.

Textiles and National Security

Mr. Chairman, not only is the textile industry one of America's largest employers, it is also an industry of critical importance to our national security. Two and a half decades ago, the Kennedy Administration conducted a cabinet-level study which determined that, next to steel, textiles are the United States' most important strategic industry. That finding is no less valid today.

It is a truism that nobody wants Americans GIs to go to war in Japanese-manufactured uniforms. But the role of textiles in our national defense is far broader than that. It encompasses everything from medical supplies to parachutes to the fiber webbing that goes into the high-tech skins of Trident submarines and B-1 bombers.

Productivity in the U.S. Textile Industry

One of the favorite shibboleths of free-trade zealots is that domestic industries are inefficient and slothful. We listen to their neo-puritanical preachments that U.S. companies deserve to be punished by their "disciplined" and "virtuous" foreign competitors. Ignored is the fact that the "discipline" of those foreign producers is to enforce a 14-hour day, and their "virtue" is to pay 30 cents an hour to their desperate workers.

The New Republic intones grandly, "If foreign workers can make a product more cheaply than we can, it is to our benefit to stop making it here, and to buy it from them." This is the reductio ad absurdum of the free trade argument. After all, as a practical matter, what product cannot be made more cheaply abroad? Does The New Republic advocate that we simply disband American industry, lock, stock, and barrel?

This is an insult to American industry and the American worker. According to the Bureau of Labor Statistics, U.S. workers rank first in the world in productivity; Japanese workers rank only twelfth.

The reality is that the U.S. textile industry is as advanced as any in the world. Investments in modernization have exceeded $12 billion since 1980. The result has been an explosion of technical innovation and productivity. Indeed, since 1974, the productivity of U.S. textile workers has increased at an average annual rate of 4.5 percent. This compares to an average annual rate of increase of 2 percent for all workers in manufacturing.

Today, however, there is a very real question in the minds of textile executives: Can they afford the expense of additional huge investments for the long term if they are going to be destroyed in the short term by predatory foreign competition? Consider that foreign producers of apparel and apparel fabrics already control some 52 percent of the U.S. market, and their imports to the U.S. are growing at a rate of 20 percent a year. Even if you assume a 10 percent growth rate -- half the current rate -- foreign producers will control fully 90 percent of our market by the year 1992. Truly, if some version of S. 549 does not become law, we will be looking at the programmed extinction -- the phased liquidation -- of the domestic U.S. textile industry.

Accordingly, one critically important impact of this bill is that it gives industry executives some assurance that the domestic textile industry will still be here in five and ten years' time, and that continued long-term investments are worthwhile. It provides that degree of stability and predictability that are essential to long-term planning.

Industry Profits

The fact is, past investments in innovation are paying off at a number of companies. After a series of disastrous years, industry-wide textile profits last year were up 3.4 percent -- almost as good as the 4.2 percent increase in profits for all manufacturing industries.

Some textile companies have found profitable market niches and are reporting increased revenues. Regrettably, however, those companies are the exception. Industrywide profits over the last year have been, by and large, paper profits generated by accountants and tax lawyers. Across the industry, companies continue to shut down plants, lay off workers, and surrender market share.

The Nonrubber Footwear Industry

Mr. Chairman, if the textile and apparel industry is suffering from pneumonia, then by comparison the domestic nonrubber footwear industry is in the terminal stages of tuberculosis. Import growth has averaged 20 percent annually since 1981, resulting in import penetration of more than 80 percent of the U.S. market by the end of 1986. Employment in the domestic nonrubber footwear industry is in precipitous decline. Since 1981, 308 nonrubber footwear factories have closed their doors.

Three times, the International Trade Commission has ruled that domestic nonrubber footwear producers are suffering grievous injury. Three times, Executive Branch officials have adjusted their Adam Smith neckties and said, "Too bad. That is the 'creative destruction' of the free market at work."

In this respect, Mr. Chairman, it is ironic that some would say this bill is an exercise in Japan-bashing or Korea-bashing or whatever. It is more accurate to describe this bill as Washington-bashing. Its provisions are aimed, first and foremost, at our own government and its refusal to enforce our trade agreements and trade laws.

From the ivory towers of Commerce and State, this administration preaches a childlike faith in the "invisible hand." Meanwhile, our trading partners pursue a policy of the iron fist. Their nations are citadels of tariffs and barriers to trade. They gang together in consortia and cartels and "common markets" to protect their own industries and to plunder America's.

So let us be done with the mythology of "free trade." The reality is that 99 percent of world trade today is government-to-government trade -- trade conducted according to ground rules laid down and enforced by governments. It is time, at long last, for our own government to come in out of left field and go to bat for the hardworking industries and workers of the United States.

The American textile and apparel worker is eager to compete. American industry is eager to compete. By passing the Textile and Apparel Trade Enforcement Act of 1987, let us tell the world that we in the U.S. Government are equally resolved to compete.

# # #

STATEMENT OF HON. CLAIBORNE PELL, U.S. SENATOR FROM RHODE ISLAND

Senator PELL. Thank you very much, Mr. Chairman.

As a cosponsor of S. 549, I am very glad that you are considering this bill and hope you will report it favorably.

It seems to me that it is a modest bill; it offers a reasonable approach to the continuing problem of low-priced textile and apparel imports that unfairly compete with American products and threaten American jobs.

I know that we in New England are particularly sensitive to the condition of the domestic textile industry, because so much of that industry originally started in our part of the country. The first cotton mill in America was built in Pawtucket, R.I. on the banks of the Blackstone River in 1793. Today, the textile and apparel industry is still our second largest employer, accounting for 14,000 jobs, 11 percent of our total manufacturing employment and an annual payroll of $221 million. We have 114 textile manufacturing establishments in 26 Rhode Island communities.

While not all of these establishments have suffered in equal degree from foreign imports, it is certain that most of them have been affected to some degree by the three-fold increase in textile and apparel imports since 1980. Apparel manufacturers, in particular, have seen over half of their domestic market captured by foreign competition.

The industry properly argues that much of this competition comes from countries with very low wage scales, with no costly requirements for environmental or worker safety standards, and no restrictions on child labor. The bill's allowance of a one percent per year increase in imports strikes me as a minimal restraint under the circumstances.

Speaking as one who prefers to support trade expansion whenever possible, I find myself in this case in agreement with those who take the position that the textile industry is unique and requires special legislative relief from foreign competition, because there is no other way to cope with the circumstances.

This view was expressed with special insight by Karl Spilhaus, president of the Northern Textile Association, in an article in the Providence Journal of May 25, 1987, and I would ask unanimous consent that that article may be inserted in the record.

The CHAIRMAN. Without objection.

Senator PELL. I thank the Chairman for permitting me to be here, and if you would excuse me, I have to preside at a hearing.

The CHAIRMAN. I understand, Senator, and thank you very much.

[Senator Pell's prepared statement and the article from the Providence Journal follow:]

STATEMENT BY SENATOR CLAIBORNE PELL

In Support of S. 549

The Textile and Apparel Trade Act of 1987

As a cosponsor of S. 549, the Textile and Apparel Trade Act, I am delighted that the Committee on Finance is considering the bill and I urge the committee to report the bill favorably.

S. 549 seems to me to offer a reasonable and modest approach to the continuing problem of low priced textile and apparel imports that unfairly compete with American products and threaten American jobs.

We in New England are particularly sensitive to the condition of the domestic textile industry because the industry had its beginnings in our area and is still very much with us. Samuel Slater built the first cotton mill in America on the banks of the Blackstone Riverin Pawtucket, R.I. in 1793.

Today, the textile and apparel industry is still the second largest employer in Rhode Island, accounting for 14,000 jobs, or 11.5 % of total manufacturing employment and an annual payroll of $221.6 million. There are some 114 textile manufacturing establishments in 26 Rhode Island communities.

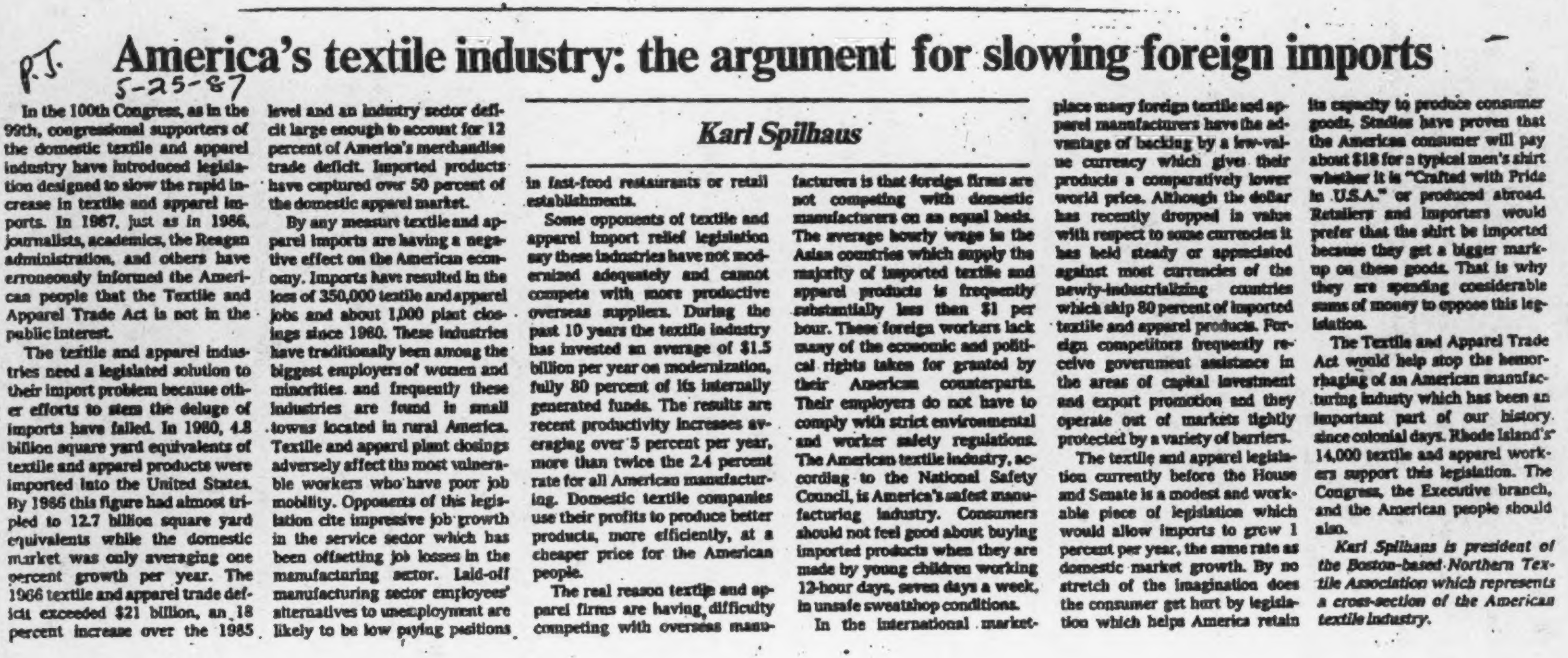
While not all of these establishments may have suffered in equal degree from foreign imports, it is certain that most of them have been effected to some degree by the three-fold increase in textile and apparel imports since 1980. Apparel manufacturers, in particular, have seen over half of their domestic market captured by foreign competition.

The industry properly argues that much of this competition comes from countries with very low wage scales, with no costly requirements for environmental or worker safety standards and no restrictions on child labor. The bill's allowance of a one percent per year increase in imports strikes me as a minimal restraint in the circumstances.

Speaking as a senator who prefers to support trade expansion whenever possible, I find myself in this case in agreement with those who take the position that the textile industry requires special legislative relief from foreign competition because there is no other way to cope with the circumstances which confront the industry.

This view was expressed with special insight by Karl Spilhaus, president of the Northern Textile Association, in an article in the Providence Journal of May 25, 1987, entitled "America's textile industry: the argument for slowing foreign imports," which I submit for the record of this hearing.

I support Mr. Spilhaus' view and I urge the committee to take it into account in your consideration of S. 549. I hope you will see the wisdom of reporting the bill favorably to the Senate.



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America's textile industry: the argument for slowing foreign imports

Karl Spilhaus

In the 100th Congress, as in the 99th, congressional supporters of the domestic textile and apparel industry have introduced legislation designed to slow the rapid increase in textile and apparel imports. In 1987, just as in 1986, journalists, academics, the Reagan administration, and others have erroneously informed the American people that the Textile and Apparel Trade Act is not in the public interest.

The textile and apparel industries need a legislated solution to their import problem because other efforts to stem the deluge of imports have failed. In 1980, 4.8 billion square yard equivalents of textile and apparel products were imported into the United States. By 1986 this figure had almost tripled to 12.7 billion square yard equivalents while the domestic market was only averaging one percent growth per year. The 1986 textile and apparel trade deficit exceeded $21 billion, an 18 percent increase over the 1985 level and an industry sector deficit large enough to account for 12 percent of America's merchandise trade deficit. Imported products have captured over 50 percent of the domestic apparel market.

By any measure textile and apparel imports are having a negative effect on the American economy. Imports have resulted in the loss of 350,000 textile and apparel jobs and about 1,000 plant closings since 1980. These industries have traditionally been among the biggest employers of women and minorities. and frequently these industries are found in small towns located in rural America. Textile and apparel plant closings adversely affect the most vulnerable workers who have poor job mobility. Opponents of this legislation cite impressive job growth in the service sector which has been offsetting job losses in the manufacturing sector. Laid-off manufacturing sector employees' alternatives to unemployment are likely to be low paying positions in fast-food restaurants or retail establishments.

Some opponents of textile and apparel import relief legislation say these industries have not modernized adequately and cannot compete with more productive overseas suppliers. During the past 10 years the textile industry has invested an average of $1.5 billion per year on modernization, fully 80 percent of its internally generated funds. The results are recent productivity increases averaging over 5 percent per year, more than twice the 2.4 percent rate for all American manufacturing. Domestic textile companies use their profits to produce better products, more efficiently, at a cheaper price for the American people.

The real reason textile and apparel firms are having difficulty competing with overseas manufacturers is that foreign firms are not competing with domestic manufacturers on an equal basis. The average hourly wage in the Asian countries which supply the majority of imported textile and apparel products is frequently substantially less than $1 per hour. These foreign workers lack many of the economic and political rights taken for granted by their American counterparts. Their employers do not have to comply with strict environmental and worker safety regulations. The American textile industry, according to the National Safety Council, is America's safest manufacturing industry. Consumers should not feel good about buying imported products when they are made by young children working 12-hour days, seven days a week, in unsafe sweatshop conditions.

In the international marketplace many foreign textile and apparel manufacturers have the advantage of backing by a low-value currency which gives their products a comparatively lower world price. Although the dollar has recently dropped in value with respect to some currencies it has held steady or appreciated against most currencies of the newly-industrializing countries which ship 80 percent of imported textile and apparel products. Foreign competitors frequently receive government assistance in the areas of capital investment and export promotion and they operate out of markets tightly protected by a variety of barriers.

The textile and apparel legislation currently before the House and Senate is a modest and workable piece of legislation which would allow imports to grow 1 percent per year, the same rate as domestic market growth. By no stretch of the imagination does the consumer get hurt by legislation which helps America retain its capacity to produce consumer goods. Studies have proven that the American consumer will pay about $18 for a typical men's shirt whether it is "Crafted with Pride in U.S.A." or produced abroad. Retailers and importers would prefer that the shirt be imported because they get a bigger markup on these goods. That is why they are spending considerable sums of money to oppose this legislation.

The Textile and Apparel Trade Act would help stop the hemorrhaging of an American manufacturing industry which has been an important part of our history since colonial days. Rhode Island's 14,000 textile and apparel workers support this legislation. The Congress, the Executive branch, and the American people should also.

Karl Spilhaus is president of the Boston-based Northern Textile Association which represents a cross-section of the American textile industry.

STATEMENT OF HON. JESSE HELMS, U.S. SENATOR FROM NORTH CAROLINA

The CHAIRMAN. Senator Helms, you have been long interested in this issue, and we are very pleased to have you here this morning.

Senator HELMS. Mr. Chairman and members of the committee, I thank you very much.

As is always the case, no matter what the issue is, we all show up with the same statistics. I am not going to repeat those.

The CHAIRMAN. Well, you know, that isn't always the case.

Senator HELMS. I am talking about the advocates.

The CHAIRMAN. I understand. We get different numbers in this committee quite often, but we are delighted to have yours.

Senator HELMS. There is a little collusion on behalf of the Senators from the two Carolinas, but, anyway, I am trying to do you a favor, Mr. Chairman. [Laughter.]

The first thing I want to ask unanimous consent on is that my full statement appear in the record.

The CHAIRMAN. Without objection, it will be done.

Senator HELMS. And the second is, I want to say, "Amen, brother," as we do in the Baptist Church, to the previous comments by the distinguished Senators from South Carolina and my friend from Rhode Island with whom I serve on the Foreign Relations Committee.

But I do appreciate your letting us come here this morning. I know that you must feel that this is the same song, second verse; but it is a sad, sad song in terms of a lot of people in this country.

Now, S. 549 addresses a trade issue which directly affects the futures of more people than a lot of us imagine.

We always hear a lot of talk about free trade versus protectionism. The debate about free trade versus protectionism doesn't apply to the textile and apparel market. World trade in textiles and apparel is strictly regulated; it is a managed market. And I think we must decide how we can best manage it to serve our national interests. And I make no apology for my efforts to serve the best interests of the people of this country.

The American textile industry is spending $1,600,000,000 a year for new equipment to improve efficiency and quality control, responding with renewed commitment to competitiveness. Nevertheless, the industry is being destroyed—and I don't overstate the facts on that—by low wage imports which, as Senator Pell just said, often enjoy government subsidies.

So, I think we must decide now how important our domestic textile and apparel industry is to this country, and how important are the people who will be adversely affected if we don't do something.

I believe the industry is vital. Maybe you recall a statement made by Bill Brock, the former U.S. Trade Representative. He said, "every U.S. industry insists it is essential for national defense," and then he said, "Textiles is the only one we accept, and that goes back 20 years."

Textiles are essential elements in more than 300 combat-essential items, from socks to aircraft brake systems. The Department of Defense has in its inventory, approximately 10,000 items which are made entirely or partially from textiles. So, the question is relevant: Can we afford to put ourselves in the position of relying on a foreign market to supply the items necessary for our military readiness?

Mr. Chairman, I think we need to ask whether the Administration has lived up to its commitment to relate imports to the growth in the domestic markets. We bring that up every time because it is a relevant question, it is a vital question. Unfortunately, the Administration has not lived up to its commitment and specifically has not lived up to the written commitment of the President of the United States when he was seeking the presidency the first time in 1980.

In fact, the trade figures for 1986 revealed another record year for U.S. imports. It was the worst trade deficit ever recorded by any nation in the world. These are the statistics that Senator Hollings alluded to in detail and to which I allude in my prepared statement, which the Chair has been gracious enough to include in the record.

Let me conclude, Mr. Chairman and members of the committee, by saying the question is not protectionism versus free trade; the textile market is managed worldwide, and I think we are obliged to put an end to the mismanagement that has taken place by our government.

This bill will force our trading partners to come to the negotiating table early and independently, thus allowing our negotiators to begin from a position of strength.

I thank you, Mr. Chairman, and members of the Committee. Like Senator Pell, I must go to the Agriculture Committee, but I deeply appreciate the opportunity to be here.

The CHAIRMAN. Senator, we are pleased to have your contribution to the debate and your advocacy.

Senator HELMS. Thank you very much.

The CHAIRMAN. Thank you.

I believe we have Senator Evans here.

Senator, we are pleased to have you, and we look forward to your comments.

[Senator Helms' prepared statement follows:]

STATEMENT OF THE HONORABLE JESSE HELMS
BEFORE THE COMMITTEE ON FINANCE
UNITED STATE SENATE

JULY 30, 1987

Mr. Chairman, first let me express my most sincere appreciation to you and the other members of this committee for holding this hearing today on S.549, the Textile and Apparel Trade Act of 1987. This bill addresses a trade issue which directly affects millions of Americans.

During the recent debate on the Omnibus Trade bill, we heard a great deal of talk about "free trade" versus "protectionism." However, the debate about free trade versus protectionism does not really apply to the textile and apparel market. World trade in textiles and apparel is strictly regulated -- it is a managed market. The issue we must address is how we can best manage it to serve our national interests.

Since 1974, the Multi-Fiber Arrangement (MFA) has provided the framework for world trade in textiles and apparel. The purpose of the MFA is to guarantee markets in developed countries for textile and apparel products from lesser developed countries while insuring against market disruption in the developed countries. This is the tradeoff considered necessary to prevent unreasonable protectionist measures by developed countries while guaranteeing access to their markets for the lesser developed countries.

Mr. Chairman, the American textile industry is spending $1.6 billion a year for new equipment to improve efficiency and quality control, responding with renewed commitment to competitiveness. Yet despite those efforts, our domestic textile and apparel industry is being destroyed by low-wage imports that often enjoy government subsidies.

In deciding what approach we should take to this problem, we must address several important questions. First, we must ask how important our domestic textile and apparel complex is to this country.

I'll answer that simply by repeating a statement made by former U.S. Trade Representative, William Brock: "Every U.S. industry insists it is essential for national defense. Textiles is the only one we accept, and that goes back 20 years."

I'm afraid that many of my colleagues don't realize how important the textile industry is to our military. In July of last year, the House Armed Services Subcommittee on Investigations held a hearing in which the capability of our domestic industry to meet military wartime needs was drawn into serious question because of unrestrained textile imports. A 1986 Department of Defense report on the capability of the domestic textile and apparel industries to support defense mobilization requirements found that diminishing sources in the textile industry have seriously affected its production base.

Textiles are vital elements in over 300 combat essential items -- from socks to aircraft brake systems. In total, the Department of Defense has in its inventory approximately 10,000 items which are made entirely or partially from textiles. Can we afford to put ourselves in the position of relying on a foreign market to supply the items necessary to our military readiness?

In addition to its contribution to our military establishment, the textile/apparel industry provides essential jobs. In his September 3, 1980, letter to the distinguished senior Senator from South Carolina (Mr. Thurmond), President Reagan acknowledged that, "The fiber/textile/apparel manufacturing complex provides 2.3 million vitally needed American jobs, including a high percentage of female and minority employees." In fact, one in every 10 Americans employed in manufacturing is part of the fiber, textile and apparel industry.

I'm proud to say that the North Carolina textile/apparel/fiber industry employs more than 300,000 people. But textile jobs are limited neither to a particular state nor to a particular region. They are distributed across the country. For example, the industry employs 159,000 in New York; 169,000 in California; 122,000 in Texas; 48,000 in Massachusetts; 38,600 in Florida -- and the list goes on and on.

Unfortunately, we are exporting more and more of these jobs overseas. Since 1980, more than 300,000 American workers have lost their jobs in the textile and apparel industry. We lost almost 100,000 jobs in 1985 alone. More than 1000 textile and apparel plants have been closed. The dramatic increase in imports represents more than 700,000 American job opportunities overseas.

The second question we must address is whether the Administration acted, as promised, to relate imports to the growth in the domestic market. Unfortunately, Mr. Chairman, the answer is "no." It may be instructive to review just how effective the government's efforts have been to control the flow of imports.

When the trade figures were released for 1986, they revealed another record year from U.S. imports. In fact, it was the worst trade deficit ever recorded by any nation in the world. Textile and apparel imports rose to an all time high of 12.7 billion square yards, making 1986 the sixth successive year of record textile and apparel import levels. Import growth in textiles and apparel rose 17.2 percent over 1985.

From 1980 - 1986, textile and apparel imports grew an average of 19.5% annually, while the domestic market grew at a rate of 1-2%. It was in this context that Congress passed the Textile and Apparel Trade Enforcement Act.

When the President vetoed the bill, we decided to give the government 7 months to demonstrate that it would strengthen its policies and fulfill the commitment to relate import growth to the growth in the domestic market. But what happened during that time? Imports grew 22% -- the highest for any six month period in history.

Unfortunately, as we all know, Congress failed by a small margin to override the President's veto.

What about the commitment to negotiate a tougher MFA? Well, despite the Administration's reports to the contrary, the recently renewed MFA has done nothing to reduce the growth of imports. Figures released by the Department of Commerce for this year show that for the period January to May, the textile and apparel trade deficit increased 22% over the same period last year. In May alone, the textile and apparel trade deficit increased 29% over May of last year.

To determine how committed our government has been in its efforts to renegotiate the MFA, let us compare our industry's situation to that of the European Economic Community (EEC).

From 1974 to 1980, the EEC was in a situation similar to ours. Their textile industry experienced multiple plant closings and lost hundreds of thousands of jobs -- all due to an uncontrolled flood of imports.

In 1981, the EEC aggressively negotiated bilateral agreements with its trading partners pursuant to the new MFA. Their aggressive strategy incorporated several factors which our government must wake up and recognize. :

First, the EEC Ministers recognized that their textile and apparel industry was of vital importance and worth saving, even at the risk that some of their trading partners may retaliate.

Second, they adopted a strong negotiating stance: they demanded cutbacks in imports from the major supplier nations;

they made it clear that they would withdraw from further negotiations if relief for their market was not forthcoming; and they established "global ceilings" for highly sensitive products. The use of global ceilings was particularly significant because it fragmented the supplier nations, forcing them to negotiate quickly and independently. This strategy allowed the EEC to negotiate from a position of strength.

The success of their efforts has been dramatic: during the same time period that the U.S. textile/apparel trade deficit was growing from $4 billion to $16 billion, the EEC trade deficit was decreasing from $4 billion to $2 billion. In 1985 our deficit grew to $18 billion -- the EEC's deficit fell to $1 billion. Since 1980, our textile/apparel trade deficit has grown over 300%; that for the EEC has decreased by 75%.

Finally, Mr. Chairman, it is important to compare the approach taken by S.549, the Textile and Apparel Trade Act of 1987, with that of previous legislative efforts. The textile industry and its workers have made significant efforts in S.549 to address the objections expressed about last year's bill -- even though it was passed easily by Congress.

For example, the bill provides for a global quota that does not mandate restrictions on any specific country. This preserves maximum flexibility for the Administration to implement the new law. Furthermore, the bill calls for no rollbacks in imports. It allows imports to remain at their 1986 level with a one percent annual increase -- the projected long-term growth rate of the domestic market.

Mr. Chairman, in compliance with the General Agreement on Tariffs and Trade (GATT), the bill includes a Congressional finding of injury to the domestic industry, it provides global quotas with no discrimination, and it authorizes the President to negotiate reductions in U.S. textile and apparel tariffs as compensation for those countries affected. These tariff cuts can be up to 10 percent and must be staged equally over five years.

In conclusion, Mr. Chairman, it is clear that the nation's textile/apparel complex is vital to our national and economic security. We must require our government to enforce our trade laws effectively to guard against the unwarranted destruction of the industry.

The question is not protectionism versus free trade. The textile market is managed world-wide. We simply must put an end to the mis-management that has taken place by our government. This bill will allow our negotiators to begin from a position of strength with our trading partners. Most importantly, it is fully consistent with the GATT.

Mr. Chairman, I strongly urge the Committee to consider and favorably report this bill as expeditiously as possible.

STATEMENT OF HON. DANIEL J. EVANS, U.S. SENATOR FROM WASHINGTON

Senator EVANS. Thank you very much, Mr. Chairman. I have listened with interest to my distinguished colleagues speak on the Textile and Apparel Trade Act of 1987. I not only will change the tune, I suspect I may change the song itself.

I appreciate this opportunity to testify. I strongly oppose this legislation and urge that you do not recommend that it be enacted into law.

Mr. Chairman, this isn't the time to enact legislation for an industry which is already not only adequately but handsomely protected in this country.

Senator PACKWOOD. Could I make just one correction? Our agreement, I think, was that we would report this bill out; I am not sure it was with a recommendation that it be enacted into law.

The CHAIRMAN. The commitment was that the Chair and the Ranking Minority Member would do their utmost to see that the Senate had an opportunity to vote on this piece of legislation. I strongly feel that they should have that opportunity, but that we report it out without recommendation.

Senator EVANS. Well, I understand, Mr. Chairman. If that is an agreement reached, of course that is something the committee will do. There is more than one way to report a bill out to the floor, of course. Without recommendation, if that has been the choice, so be it. If that hasn't been the choice, I would certainly urge that it be reported out with a "do not pass" recommendation. That is perfectly appropriate, considering this legislation.

The CHAIRMAN. That may have been done that way, but I can't recall that instance.

Senator EVANS. Well, now is the time to break precedent, Mr. Chairman. [Laughter.]

I can't think of a better bill on which to break precedent.

I said that this is an industry not only adequately but handsomely protected. I can think of few other industries in the United States today with as many protective devices in place against foreign imports.

The Senate has just finished consideration of the Omnibus Trade Legislation. Attempts to attach sector-specific amendments were rejected by this committee's leadership, and rightly so. Such amendments open the floodgates to other amendments designed solely to protect specific industries.

The time was not right for a textile bill a month ago, and it is not right today. Furthermore, Mr. Chairman, this is an industry that is doing quite well. If we were to rank all of the industries in the United States subject to import competition and recognize that some are in deep difficulty because of that import competition, the textile industry wouldn't even be close to the bottom of the list.

In 1986 and in the beginning months of 1987, for example, the capacity utilization rates, according to statistics of the Federal Reserve, show that the textile industry's utilization rate rose from 82 percent in 1985 to 89.4 percent in 1986, and is continuing to improve in the first quarter of 1987 to 91.6. Few industries in the country have utilization rates that high.

The apparel industry's rate also shows improvement, to 89.6 percent in the first quarter, a one and a half percent improvement over a similar period last year, and this compares to an overall manufacturing utilization rate of 79.9 percent—hardly an industry in trouble.

The industry's record in productivity over the past decade is good compared to other manufacturing industries, and on this point I agree with my colleagues who spoke earlier. Senator Moynihan has often pointed out that change in productivity is the key index we should be examining when enacting trade legislation. The productivity growth rates in the textile industry, as measured by the American Textile Manufacturing Institute itself, are double that for all manufacturing in the 1975 to 1985 period—5.6 percent to 2.4 percent. Productivity growth for the apparel industry is slightly higher than the overall number.

Mr. Chairman, these statistics don't paint the picture of an industry that is depressed or faltering. In fact, it is an industry that is clearly on a cyclical upswing. Profits of the 35 major textile companies, according to an industry consultant, Kurt Salmon Associates, showed that net income jumped 83 percent to $390 million in 1986. The problem may be that the industry's profits are not being allocated to the employees who work there.

Let me quote from the Charlotte Observer of July 14, 1987:

> But many Burlington Industries employees are working longer weeks, thus making more money because of strong business conditions, company spokesman Bry Hasking said. Like many of its peers, Burlington's plants are operating seven days a week, 24 hours a day, because of strong demand.

But let me quote further from a union official, Bruce Raynor, Southern Regional Director of the Amalgamated Clothing and Textile Workers Union:

> The industry is experiencing the best years it has ever had. But the message they are giving the workers is: "You can share in our problems, but you can't share in our profits."

Therefore, we in Congress appear poised to do what we do so well, reacting to yesterday's headlines and missing the real news. Both the textile and the apparel industries are on the comeback trail.

If indeed imports are causing injury to the textile and apparel industries, let them use existing trade laws. Why not ask them, as the distinguished from Missouri, Senator Danforth, has done in the past, to take their case to the International Trade Commission and allege injury under the Section 201 statute? That is the appropriate place to resolve issues regarding alleged injury from increased imports. I personally don't think that the domestic industry would have much justification for alleging injury at this point in 1987, given the high rates of capacity utilization, increased profits, and increased employment.

Because the picture for the domestic industry has brightened considerably, we should expect this bill, compared to the one introduced last year, to be a significantly watered down version. Unfortunately, it is not. In fact, in some respects it has worsened.

First, the quotas have been extended to all countries in the world in Section 4 of the bill. This is a broad extension of quotas from the current system of tight bilateral quotas under the framework of the Multifiber Agreement. This provision would basically make null and void the 42 bilateral agreements and our commitments under the MFA.

Second, it restricts growth to one percent per year, with the intent of this provision appearing to be to limit import growth to domestic market growth. No other industry enjoys such protection.

Third, it unduly restricts flexibility to adjust and swing certain categories of textile or apparel products by setting the aggregate quantitative targets on each category. This will make the business of fashion designers, importers, and retailers exceedingly difficult to respond to changing market conditions. It is already difficult enough for these businesses to respond to these changing market conditions. This, along with the other elements of the bill, further penalizes the American consumer by preventing an adequate choice of products at affordable prices. Choice is reduced through fewer varieties of products, and price is increased due to decreased quantities.

Others today will address the GATT-illegal nature of this bill. Suffice it to say that the compensation provisions in Section 5 are inadequate. To pretend to believe that they will be adequate amounts to a serious misreading of the GATT and the intentions of our major trading partners.

Mr. Chairman, let me close by saying that I believe that reporting this bill, which I understand will happen, does send precisely the wrong message to the world today. The bill runs contrary to many of our international agreements; it undermines the basis for proceeding with the new Uruguay Round in the GATT in Geneva by denying the less-developed countries an equitable share in our market. And coupled with the recent passage of the Omnibus Trade Bill, it sends a message to the world that America intends to hide behind its walls, not go out and face squarely the new challenges of international competition.

Mr. Chairman, I think we can do better. We have been providing special protection—and I emphasize "special protection"—for this industry for over three decades. It already enjoys a measure of protection that no other American industry enjoys. Passage of a bill like this means that, in order to try to save jobs in one region, we will displace jobs in other regions of the country through the inevitable retaliation we will face internationally. Trying to save low-wage apparel and textile jobs, we may well give up the high technology advanced jobs using the very best of American technology in industries that are the most competitive in the world market today. That isn't good trade policy.

I would hope that the committee would find it possible to not report out the bill. Or, as I understand you will, at least adopt the new precedent and report it out with the recommendation that it does not pass. But if it chooses to pass it out with no recommendation, then I hope we will take care of it on the Senate floor.

I thank the Chairman.

The **CHAIRMAN**. Senator, thank you very much for your testimony.

[Senator Evans' prepared statement follows:]

TESTIMONY OF SEN. DANIEL J. EVANS ON S. 549, THE TEXTILE AND APPAREL TRADE ACT OF 1987

Mr. Chairman, I appreciate the opportunity to testify before your Committee today on S. 549, the Textile and Apparel Trade Act of 1987. I strongly oppose this legislation and urge that you recommend that it not be enacted into law.

Mr. Chairman, this is not the time to enact legislation for an industry that is already adequately protected. The Senate has just finished consideration of omnibus trade legislation. Attempts to attach sector-specific amendments were rejected by this Committee's leadership -- and rightly so. Such amendments open the floodgates to other amendments designed solely to protect specific industries. The time was not right for a textile bill a month ago -- and it is not right today.

Furthermore, Mr. Chairman, this is an industry that is doing quite well -- both in 1986 and the beginning months of 1987. For example, the capacity utilization rates, according to statistics of the Federal Reserve, show that the textile industry's utilization rate rose from 82.1 percent in 1985 to 89.4 percent in 1986. And it is continuing to improve in the first quarter of 1987 -- to 91.6 percent. The apparel industry's record also shows improvement -- to 89.6 percent in the first quarter, a one and a half percent improvement over the similar period last year. This compares to an overall manufacturing rate of 79.9 percent in the first quarter.

The industry's record in productivity over the past decade is good compared to other manufacturing industries. In fact, as Senator Moynihan has often pointed out, the change in productivity is the key index that we should be examining when enacting trade legislation. The productivity growth rates in the textile industry, as measured by the American Textile Manufacturing Institute (ATMI) itself, are double that for all manufacturing for the 1975-1985 period: 5.6 percent to 2.4 percent. Productivity growth for the apparel industry is slightly higher than the overall number.

Mr. Chairman, these statistics clearly don't paint the picture of an industry that is depressed or faltering. In fact, it's an industry that is cleary on a cyclical upswing. Profits of the 35 major textile companies, according to an industry consultant, Kurt Salmon Associates, Inc. showed that net income jumped 83 percent to $390 million in 1986. The problem may be that the industry's profits are not being allocated to the employees. Let me quote from the Charlotte Observer of July 14, 1987:

> "But many Burlington Industries employees are working longer weeks, thus making more money because of strong business conditions, company spokesman Bryant Haskins said. Like many of its peers, Burlington's plants are operating seven days a week, 24 hours a day because of strong demand."

Let me quote further from a union official, Bruce Raynor, Southern regional director of the Amalgated Clothing and Textile Workers Union:

> "The industry is experiencing the best years it has ever had. But the message they're giving the workers is: 'You can share in our problems, but you can't share in our profits."

Therefore, we in Congress appear poised to do what we do so well, reacting to yesterday's headlines and missing the real news. Both the textile industry and the apparel industry are on the comeback trail.

If indeed imports are causing injury to the textile and apparel industry, let them use our existing trade laws. Why not ask them, as Senator Danforth has done in the past, to take their case to the International Trade Commission and allege injury under the Section 201 statute? That is the appropriate place to resolve issues regarding alleged injury from increased imports. I personally don't think that the domestic industry would have much justification for alleging industry at this point in 1987, giving the high rates of capacity utilization, increased profits, and increased employment.

Because the picture for the domestic industry has brightened considerably, we should expect this bill to be a significantly watered-down version of the textile legislation introduced in 1985. Unfortunately, it is not. In fact, in some respects it has worsened.

First, the quotas have been extended to all countries in the world in Section 4 of the bill. This is a broad extension of quotas from the current system of tight bilateral quotas under the framework of the MFA. This provision would basically make null and void our 38 bilateral agreements and our commitments under the MFA. Second, it restricts growth to one percent per year. The intent of this provision appears to be to limit import growth to domestic market growth. No other industry enjoys such protection. Third, it unduly restricts flexibility to adjust and swing certain categories of textile or apparel products by setting the aggreagte quantitative targets on each category. This will make the business of fashion designers, importers, and retailers exceedingly difficult to respond to changing market conditions. It is already difficult enough for these businesses to respond to changing market conditions. This further penalizes the American consumer by preventing an adequate choice of products at affordable prices. Choice is reduced through fewer varities of products, and price is increased due to decreased quantities.

Others today will address the GATT-illegal nature of this bill. Suffice it to say that the compenssation provisions in Section 5 are inadequate. To pretend to believe that they will be adequate amounts to a serious misreading of the GATT and the intentions of our major trading partners.

Let me close by saying that I believe that reporting this bill will send precisely the wrong message to the world today. This bill runs contrary to many international agreements. It undermines the basis for proceeding with the new Uruguay Round in the GATT in Geneva by denying the less-developed countries an equitable share of our market. And, coupled with the recent passage of the omnibus trade bill, it sends a message to the world that American intends to hide behind its walls, not go out and face squarely the new challenges of international competition.

Mr. Chairman, I think we can do better. We have been providing special protection to this industry for over three decades. It already enjoys a measure of protection that no other American industry enjoys. Passage of a bill like this means that, in order to try to save jobs in one region, we displace jobs in other regions of our country. That is not good trade policy. I would hope that the Committee would not report out this bill today. But, if it chooses to do so, that it do so with a recommendation that it not be enacted into law.

The **CHAIRMAN**. Let me state that the sequence of arrival of the Senators is: Packwood, Riegle, Chafee, Heinz, and Danforth.

Are there questions of the witness?

Senator **PACKWOOD**. No questions, Mr. Chairman.

Senator **CHAFEE**. Mr. Chairman, first of all, I want to thank the Senator from Washington for mentioning a group that hasn't been mentioned before here today, and that is the consumer. I think they figure in this legislation somewhere, and I am so glad that the Senator from Washington mentioned them. He is the first of the witnesses who has paid any heed to consumers.

Second, I think we have a problem with truth in labeling here. This is constantly referred to, and indeed the very hearing is on the Textile and Apparel Trade Act of 1987. Yet, shoes are included in this legislation. I don't know how the labeling got to be just "textiles and apparel." But I want to remind everybody that shoes are covered by this legislation. That is the only other product besides textiles and apparel; but it is a very important product. So, I register a mild protest against the labeling of the legislation.

Thank you.

The **CHAIRMAN**. Are there other questions?

[No response.]

The **CHAIRMAN**. Thank you very much, Senator; we are delighted to have you, and we appreciate your testimony.

Senator **EVANS**. I thank the Chairman very much.

The **CHAIRMAN**. Let me state that we will have two panels, and they will be made up of witnesses on both sides of this issue—those that are proponents and opponents of the particular piece of legislation.

First, we have our distinguished Trade Ambassador here. Ambassador Yeutter, would you come forward? I have been advised that you are under some time constraints, which seems to be pretty typical of this group this morning. But we are very pleased to have you, Mr. Ambassador. If you would, proceed with your testimony.

STATEMENT OF HON. CLAYTON YEUTTER, U.S. TRADE REPRESENTATIVE, WASHINGTON, DC

Ambassador **YEUTTER**. Thank you very much, Mr. Chairman. It is a pleasure to be here.

Before I begin my testimony, Mr. Chairman, I would like to say that I shared a memorial service for a dear friend of all of us yesterday morning with many of you, and I would like to say on behalf of the Administration and particularly on behalf of Midge Baldrige and family how much we appreciated the attendance by many of you at those services. I know you share with me the great loss to all of us in America from Mac Baldrige's untimely death. Senator Danforth played a special role in that service yesterday morning and handled those responsibilities superbly. We are deeply grateful for that, as well.

The **CHAIRMAN**. Mr. Ambassador, I think we all share in that, and I think we have all spoken on the floor of the United States Senate to the loss of a great public servant and for many of us a very good and warm friend.

Ambassador **YEUTTER**. Thank you.

Now to the issue at hand. I would like to paraphrase my prepared statement as usual, Mr. Chairman, and I will try to do it relatively quickly, because I know you have a lot of other people waiting to testify.

First of all, it seems to me that the principal question that has to be asked by all of us in the Administration and in the Congress, as we confront this legislative proposal, is why? Why is it here? Why is it seriously being considered? Is it necessary to have a textile bill evaluated by this body every year, irrespective of the economic rationale of that legislation?

I can understand the political rationale, because that is evident; but it seems to me that if there was ever a non-problem this is it, and I find it very difficult to comprehend why your time and our time is being used on an issue of this nature at this moment.

Senator Evans provided considerable discussion of the economic situation, and I don't want to duplicate all of that, Mr. Chairman, but I would like to make a few points in that respect, because when I first testified to this committee on this particular subject, which was back in late 1985 if I remember correctly, and as we had follow-up discussions on a person-to-person basis during the subsequent months prior to the override vote on the veto, I made the point on numerous occasions that I was empathetic with the economic travail of the domestic textile and apparel industry, but that in my judgment that situation had bottomed out, and the economic wellbeing of the industry would improve rather dramatically in the ensuing months. That testimony was hooted by the domestic textile and apparel industry—not literally, perhaps, but figuratively—with the industry disagreeing vehemently with those conclusions.

Well, it is now 18 months later and the facts are in. I was right. The textile industry was wrong. The situation has changed dramatically over the last 18 months, and it has changed dramatically for the better, and that is good. I am glad that it has. I am delighted that my prognostications were correct and that the industry's prognostications were incorrect.

Whatever, it seems to me that every economic indicator that I know of for that industry is favorable today. Domestic production was up in 1986. As I believe Senator Evans indicated, capacity utilization went up beyond 90 percent, which is just about as high as it can possibly go; earnings skyrocketed in 1986, and maybe they started from a relatively low base, with some difficult years proceeding but nevertheless when earnings are doubling, that is a pretty impressive performance in anybody's book—as you understand, Mr. Chairman, from having been in the private sector yourself.

Employment has even turned around to some degree: It is about 35,000 higher today than it was a number of months ago in 1986. The unemployment rate in the major textile producion States is lower than the national average. Fiber consumption is up about 10 percent for the first half of 1987, which means that the 1986 trends have continued on into 1987.

Exports are up, even though—also from a small base—they are up at an annualized rate at the moment of about 20 percent.

One must wonder just what it is that compels the industry to come back and ask for import relief in the face of a situation that looks that inspiring and beneficial from their viewpoint.

I find it inexplicable and certainly unpersuasive.

The answer, I suppose, by some will be, "Well, things are looking better, but, gee, they are still not as good as they ought to be; and they would be a whole lot better if we could do something about imports." Well, let us look at the import picture.

We did a lot of negotiating last year in the textile and apparel area, with a number of our major suppliers. We did that because we thought it was in order. We did it as a part of the total environment surrounding the MFA renegotiation. And all in all, we opened up agreements or opened up negotiations, and in some cases the agreements themselves, with our major suppliers last year, and we did reach agreements, as you recall, bilaterally with Taiwan and Korea and Hong Kong and Japan.

We negotiated the tightest agreements in history with those suppliers, and they account in the aggregate to about 40 percent of all of the imports coming into the United States, and those agreements are working, and they are working very well. They are doing what we expected them to do. They are doing what the domestic textile and apparel industry expected them to do.

These are the numbers for January through May of 1987, versus January through May of 1986: Taiwan, down 14.8 percent; Korea, up .6 percent, within the limits that we have negotiated, even though it is a slight increase; Hong Kong, down 11.5 percent; Japan, down 21.6 percent.

The world as a whole for those first five months of this year, versus the first five months of last year, is up 4.8 percent; but almost all of that increase comes from one country, the Peoples Republic of China, and we are in the process of negotiating with the Peoples Republic of China right now. And I am not going to make any commitments as to how that negotiation will conclude, because we don't know that—it takes two to tango in that process, as you well know. But the fact is that the increases for the first part of this year, versus 1986, involving the People's Republic of China relates to some product categories that are now full. We have embargoed about 20 quotas from the People's Republic of China, and there will be no more shipments in the remainder of 1987 from the PRC in those particular product categories.

So, the fact of the matter is that the negotiations, Mr. Chairman, that we have concluded in the last year or so, coupled with the China negotiation that is now underway, are going to give this industry a very high level of protection and one, in my judgment, that clearly solves their problem as they see it from an import standpoint.

I don't know what more the Government of the United States should be expected to do for this industry than it has already done.

As a matter of fact, Mr. Chairman, there are a good many people, including some people in the industry itself, who feel that we did too good a job in those negotiations last year, and that the result thereof is that we have brought about some shortages in this country that could cause a layoff of people.

I will give you a specific example of the head of a major firm that employs a lot of people in the United States. He called me just a couple of weeks ago to complain about this very issue, saying, "I have got to be able to import some additional fabric from somewhere, because I cannot get the fabric that I need in the United States anywhere. I will not be able to get it for a substantial period of time, and if you do not give me some relief, I am going to close down operations, and we are going to lay off a substantial number of people."

Now, if we granted that relief, Mr. Chairman, we would hear a hue and cry from the domestic textile and apparel industry, notwithstanding the fact that granting some relief would preserve jobs in the United States. But that is the way the situation exists.

Am I out of time?

The CHAIRMAN. Mr. Ambassador, don't pay any attention to that time. You are speaking for the Administration, and you deserve more time. Go right ahead.

Ambassador YEUTTER. Thank you.

The other point I would make on the import picture, Mr. Chairman, is that on many occasions the numbers are distorted.

Typically, the domestic industry says that import penetration is in the 50-plus percent category; it is not in that category when one analyzes it and properly categorizes the imports and evaluates the American product that is encompassed in some of the imports that are coming in in apparel, and when one evaluates the imports that are coming in as imports into product here in the United States. In other words, numbers are complicated, and one can demonstrate anything with statistics. But the fact of the matter is, the import picture is not nearly as troublesome as it is often painted as being.

Now, let us look at just the job part of it. I have seen a lot of data on job loss for this industry, too. I am not sure about the credibility of any of it. But one should recognize two things:

First of all, whatever job loss has occurred in this industry in the last five years or 10 years, or whatever timeframe is chosen, is related not just to import penetration. This is an industry that has modernized, commendably, in many respects over the last decade or so, and a good bit of the job loss is related to modernization. That is precisely what should occur in a dynamic capitalistic society; we want that to happen. It is regrettable that job loss occurs anytime, anywhere; but the fact of the matter is that it is going to occur if we are going to increase our efficiency and productivity, and the challenge then is being able to take that job loss and try to move those people elsewhere in a dynamic society where they can find employment.

As I said, one of the encouraging things about this is that that has happened; we have gone through that structural adjustment in a number of the major States that are major producing areas for textiles and apparel, and their unemployment rate is really quite good at the moment.

In addition to that, let us just assume that the 287,000 figure or 300,000 industry figure that I have seen for estimated job loss since 1980 is correct. We have got to keep that in perspective. Even though 287,000 jobs is a lot of jobs, we must recognize that we have created 13 million new jobs at least in this economy in the last several years. Again, it becomes a transition problem and an adjustment problem. It should not be a challenge of preserving jobs that really should phase out because of modernization and other efforts that are taken to improve the efficiency of our society.

Now let me just touch for a minute, Mr. Chairman, if I may, on the trade policy aspects of this bill, because Senator Evans did not do so in his testimony, and it is obviously relevant from my viewpoint as a trade negotiator.

There are three or four aspects of this that I would just hit very briefly.

First of all, there is no question that this legislation would violate the Multifiber Agreement, the MFA, which we just renegotiated last year. It violates it in that it provides for a global quota, which is not permissable in the context of the Multifiber Agreement. It violates it in that it applies for the unilateral imposition of quotas without a demonstration of market disruption. So, on both of those bases we have problems with the MFA, and we will be considered by the rest of the world to have abrogated the commitments we made in that negotiation in 1986.

The other issue relates to Article XIX of the GATT, and I have seen considerable commentary by the domestic industry that this bill is "GATT-compatible." Mr. Chairman, this bill is not GATT-compatible. In my judgment there is no chance whatsoever that this bill can be defended by us in a GATT proceeding. It will fail the tests of Article XIX, and in my opinion it will fail them very, very easily.

One cannot abandon the basic provisions that are required in Article XIX through a legislative approach—and that means the requirement of a determination of injury. In my opinion, a legislative determination of injury will not be upheld under the provisions of Article XIX.

The bill does not provide for the import relief to be temporary, as Article XIX demands. Article XIX also calls for import relief to be digressive over time—that is, declining over time. The bill does not do that.

It fails at least three tests under Article XIX.

Beyond that, it also violates most, if not all, of our bilaterals. We are up into something more than 40 bilaterals now with other countries around the world. Almost all of those if not all of them will be violated.

The suggestion of the domestic industry is that, "Well, you can avoid those violations by simply keeping them in place until they expire, and then renegotiating them, or going back and asking people to renegotiate, or, alternatively, meeting the statistical demands of this legislation by applying it to the countries who do not now have bilateral agreements with us"—meaning basically the European Community and Canada.

Now, I must say, Mr. Chairman, those are not good solutions. Were we to do that latter, meaning taking all of the adjustment out of the hide of the European Community and Canada, we would unquestionably suffer retaliation—there is no doubt whatsoever about that. In fact, the Community has already indicated that it would retaliate.

No one is obligated to reopen their bilaterals and renegotiate them simply because we legislate on that subject; that is not the way contracts work around the world and national agreements work around the world. That is just not a solution.

We are going to be in a position, Mr. Chairman, where we have no credibility with the world.

I pondered this as I was thinking about it last night, and I wondered to myself whether there has ever been a time during peacetime, other than wartime, when any nation has deliberately and flagrantly abrogated about 40 international agreements simultaneously. I am not sure that that has ever occurred in global history, but it certainly doesn't make the United States look very good.

Finally, I would say that the compensation provisions that are incorporated in the bill, Mr. Chairman, will not cover the adverse trade damage that will occur if this bill is implemented—it just will not do so. Those compensation provisions are limited to no more than a 10-percent decrease in duty on textile and apparel products. And footwear products fit into this same category. And that can only be phased in over a period of five years. There is no way that that will adequately compensate other nations for injury. They will not accept that. And we are going to have a retaliatory response, it is just as simple as that.

Finally, I would just wrap up, Mr. Chairman, by saying that if one evaluates the level of protection that already exists for this industry, one has to ask how much more are we going to load on the backs of the American consumer? We have a tariff level right now in this industry, as you know, that is just about 20 percent, one of the highest or I guess on an average industry basis the highest of any major industry in the United States. We have that tariff protection supplemented now by 1500 quotas, or thereabouts—200 of which were added in 1986. The estimated price tag on consumers on an annualized basis is now 27 billion—27 billion a year on the backs of American consumers. This bill will increase it by another eight, or thereabouts, taking it up to 35 billion. How much more do we want to saddle American consumers with? Thirty-five billion is not enough? I am just perplexed by the rationale of the legislation at all.

I would just conclude, Mr. Chairman, by saying that I find few redeeming qualities in the legislation. I have made the case on textiles and apparel, but a comparable case can be made on the footwear aspects of the bill. I would have to construe it as just an enormous ripoff of the American consumer.

And if one evaluates the upside and the downside of legislation like this, I can find an awful lot of downside. I have to look awfully deep to find any upside.

The CHAIRMAN. Thank you, Mr. Ambassador.

We have further arrivals. I will go back to the sequence again: It is Packwood, Riegle, Chafee, Heinz, Danforth, Moynihan, and Wallop.

Senator Packwood?

Senator PACKWOOD. Mr. Chairman, I thank you. I could ask the Ambassador many, many questions. I agree with most of his statement, and I would just as soon save my questions for the panels.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

I wish the Ambassador would amplify a bit, if he might, on the effect on the Peoples Republic, a potential area for tremendous exports for us on those kinds of high tech industries that we have been good at—aircraft, computers. What has happened so far with the restrictions that have been placed on their textile imports to the U.S.? Where do we stand as regards our exports?

Ambassador YEUTTER. Well, our exports generally to the Peoples Republic of China are gradually beginning to increase, Senator Chafee. The Chinese obviously are still very limited on a foreign-exchange basis, and so I don't see them as being a major importer of U.S. products overnight; that just isn't going to happen. But they are trying desperately to expand international trade generally, and of course it is a two-way street—meaning, they would like to export to us, and they would like, then, for us to import.

The relationship is a good one. In fact, I plan to make a trip to China in October, in which I hope to solidify some of this, and we hope to finish off a bilateral investment treaty that would further expand both investment and trade with China.

But this kind of legislation certainly doesn't help matters any. We have had a textile agreement with the Chinese since 1982, which expires at the end of this year. That is why we are renegotiating it now. We clearly want to try to give our domestic textile and apparel industry some relief from the large volumes of imports that have come in from China, because it is just not healthy either for them or for us to have them become inordinately dependent on the U.S. market in textiles and apparel. We hope they will diversify their exports to the United States. But we want to sell to them, too, and this kind of legislation will clearly provoke a response from the Chinese, a negative response.

Senator CHAFEE. Now, I think the points you have made have been extremely helpful, on the abrogation of the treaties, the 40-plus treaties. And the points you made on compensation—if one looked at this legislation on page 10 about the compensation, it talks about 10 percent; as I recall it, or something like that, on the present tariffs they could be reduced 10 percent over five years. That would be about two percent a year.

Ambassador YEUTTER. Yes.

Senator CHAFEE. But as you point out, that is nowhere near going to be acceptable to those nations where the increased tariffs or quotas have been imposed. So, therefore, the compensation would be sought what? Either in cash or in reduced tariffs in other areas, segments of the U.S. market? Is that correct?

Ambassador YEUTTER. Yes.

Just to clarify, Senator Chafee, what that would mean—because there has been some misunderstanding of just what "10 percent" means in the context of this legislation—that would mean that if our duties were 20 percent today, which is the average, that over five years we could reduce them from 20 to 18. In other words, they would gradually go from 20 to 19.7, 19.4, whatever it is, on down to 18 percent over a period of five years. That is not much of a duty reduction, and it is not much compensation.

So therefore, if it were not adequate—and it will be inadequate in almost all cases—then we have an obligation to either provide additional compensation in other industries—that is, to reduce duties on automobiles or wine or whatever the product may be coming in from that country to reimburse for the trade damage that occurs, or, alternatively, if we cannot work that out satisfactorily, then the other country, the adversely-affected nation, has an automatic right of retaliation against us.

Senator CHAFEE. So, it is the old story, "By doing something to protect one industry, we are reducing the protection for another industry"?

Ambassador YEUTTER. Absolutely.

Senator CHAFEE. Now, you have clearly made the statement that this is GATT-incompatible; there is no question about that?

Ambassador YEUTTER. That is correct. Obviously, if this bill were to become law, and it would probably or almost assuredly have to become law with the President's veto, if it remains anywhere near its present form—but if it were to become law, we would obviously defend it in the GATT, because that is our job. But I find our case to be most, most unpersuasive.

Senator CHAFEE. All right.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Heinz?

Senator HEINZ. Mr. Chairman, thank you. I have an opening statement I would like to put in the record, and one question I would like to ask Ambassador Yeutter.

How would you explain to us, or how might we explain to our constituents, the failure to come anyplace close to meeting, in negotiation and policing of the bilaterals, the way in which we pursue calls, and so forth—the President's original commitment going all the way back to 1980 on limiting the growth of textiles to domestic market growth? If domestic market growth has averaged more than 3 or 4 percent in any one year, I would love to know when it was, because it certainly has averaged less than that over the last six years. And yet, growth of imports has averaged in some years 20 or even 25 percent.

I would like to know how our trade office, which is responsible for negotiating those agreements—and I understand Ambassador Yeutter wasn't there all this time—how he can explain that to us and how we can explain to our constituents that the President has said one thing and his Administration has done another.

Ambassador YEUTTER. I would like to respond in two ways to that, Senator Heinz. As you indicated, I cannot in any way cover the period that precedes me; so I will try to do it on the basis of what has happened in the last couple of years.

First of all, with respect to just the basic question of what the domestic growth is, that obviously depends on what period of comparison one makes.

I had our folks do some calculations, and they point out to me that, if one looks at the period from 1970 to 1985, it is about two percent; if one looks at the period from 1980 to 1985, it is a little over three percent. If one goes back and starts at 1973—I believe it is—which is where the industry did, then it comes out to something like one percent.

So, it depends on the starting point as to just what the trend line; but irrespective of how that is ultimately calculated, Senator

Heinz, it seems to me that what one should look at is how we have handled these negotiations in recent months and over the last couple of years.

And I am prepared to comment on that because I think that is more relevant than attempting to juggle statistics to demonstrate growth rates.

We have tried to do what we think is a responsible bit of negotiating in this area; and as I indicated—a little bit before you came in—some feel that we have done too good a job in negotiating in this area over the last couple of years, including people within the industry.

Nevertheless, suffice it to say that I really believe that our existing bilateral agreements are now working very, very well because they have closed a lot of the loose edges that prevailed earlier, particularly in terms of product coverage.

And the data for the first several months of 1987 clearly indicate that. I cited some of those numbers, Senator Heinz, also before you came in which indicated that really, if one looks at the first five months of 1987, which is a period now where we have had a lot of last year's major bilaterals into effect, the only country that seems out of bounds, if you will, from the interests of the domestic industry is China; and we have that under negotiation right now.

Once we get the China negotiation concluded, I really believe that our domestic industry ought to be pleased with what is there.

The CHAIRMAN. Let me say to my colleague that Ambassador Yeutter has advised us that he has an 11:00 commitment, and I would urge that we try to keep our questions as short as we can. We have a number of witnesses and two panels that will have to be heard yet this morning.

Ambassador YEUTTER. I will try to briefly answer, Senator Heinz.

Senator HEINZ. One other issue, Mr. Yeutter. I am deeply concerned about the committee's request last year that the ITC conduct six studies of competitiveness. I am aware of a number of requests for mercy from the companies involved because they claim that literally hundreds upon hundreds of manhours will be required for each questionnaire.

Are you familiar with those studies and the burden that they would impose? And do you agree that they are all necessary?

Ambassador YEUTTER. I am generally familiar with the studies, Senator Heinz, though not specifically familiar with them. I know that there are objections within the industry to becoming involved in them.

We certainly don't want to put an unreasonable burden on anybody; at the same time, we do need a good data base to make sound public policy judgments within the Administration or in the Congress.

So, there is probably a reasonable way to work that out. You know, there is some concern within the Government that some of our friends in the private sector would prefer not to participate in the studies because they are fearful of what those studies are going to show.

That is not a good reason to not wish to participate.

Senator HEINZ. I think we would all agree on that; but could you take a look to see, however, if all the information in each study and whether all the studies—and there are six, which seems like a lot—are all necessary in your judgment.

Congress may differ with you. We may think they are all necessary; we may think none of them are necessary, but we would still value your judgment.

Ambassador **Yeutter**. Sure. I will be happy to do so.

Senator **Heinz**. Thank you.

The **Chairman**. Thank you, gentlemen. All right. Senator Danforth?

Senator **Danforth**. Mr. Ambassador, you opposed this bill as it applies both to textile and apparel and to the footwear industries; and you said a comparable case could be made with respect to the footwear industry, as you made with respect to textiles and apparel.

But the footwear industry is on sounder ground. The footwear industry, first, is not protected by a multifiber arrangement. There would be no violation, therefore, of a multifiber arrangement or anything like it.

Second, while there are—you said—over 40 bilateral agreements relating to textiles and apparel, there aren't any, as far as I know, with respect to footwear.

While the textile and apparel industries are now protected by quotas, that is not the case with respect to footwear; and whereas the footwear industry pursued—I think twice—201 cases and injury was found by the ITC and relief was recommended by the ITC; the President then turned down that suggested relief; and therefore, the footwear industry did exhaust its administrative remedies before coming to Congress, which is not the case with textiles and apparel.

So, I understand your opposition in both cases, but I do think that it is correct to say that the footwear industry is on much firmer footing, if you will pardon the pun. [Laughter.]

Than the textile and apparel industry with respect to this legislation.

Ambassador **Yeutter**. I appreciate a chance to comment on that, Senator Danforth, because I did paint with a broad brush in the interest of time; and that is one of the dangers of doing so because there clearly are differences that can be made between these two.

What you have just said is accurate. That would not change my overall assessment of the merits of the legislation; but it is very clear—and I certainly want to make sure that everyone understands that I know that—that the economic case for the footwear industry is a far more compelling one than it would be for the textile/apparel side.

And I know there are differences also in terms of the existing levels of protection and so on.

So, I fully agree, Senator Danforth, that the parameters of the footwear dispute are substantially different from the parameters involving textile and apparel.

That would not lead me to a different conclusion in terms of evaluating the merits of the legislation because a lot of the trade policy arguments would be identical.

But you make an appropriate distinction.

The **Chairman**. Thank you. Senator Wallop?

Senator WALLOP. Mr. Chairman, I have no questions of the Ambassador. I salute him for the statement. I have one quick observation to make.

At a time when U.S. apparel exports are up and U.S. shoe exports are up, it seems obvious to me that, if we have a problem of any dimension, that there is no shortage of apparels or textiles in the world and no shortage of shoes in the world.

And the easiest thing to retaliate against when we start protecting is those very jobs that are in the export market.

It seems clear to me that we would lose those almost instantaneously as we set out and about to try to protect some domestically—in what I consider to be a very awkward way and especially at a time when employment in the textile industry is rising—20,000 jobs this last year.

The profits are at a record pace where the stocks are among the hottest commodities on the exchange.

It just seems to me that this is a matter with very wrong timing and threatening to some of the people whose jobs in those very industries are dependent upon the growth that has been created by their new efficiency.

I hope that we listen to what the Ambassador has to say.

Ambassador YEUTTER. Thank you, Senator Wallop. If I can make just one quick responsive comment to that, it would be you are exactly right.

It does seem incongruous that we seem often to be responding to yesterday's problem or last year's problem. One might have built at least a plausible case or an economic case for doing something in this area a couple of years ago.

I find it totally implausible today, looking at it even from the self-interest point of view of this industry. If one looks at it in aggregate from the standpoint of this nation as a whole, it is totally implausible because it involves an effort to shrink trading patterns at a very time when we are about to become a winner in that arena.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman. Ambassador Yeutter, just one quick point here. This bill really strikes at a basic dilemma this country faces; that is, how to be an open, free-trading society and yet keep a strong manufacturing base in our country, when we are faced with much lower wages overseas.

How do we keep our manufacturing base in this country? I would like your suggestions as to how we can maintain and build a stronger manufacturing base with more jobs in this country, faced with low wages overseas?

Ambassador YEUTTER. That is a superb query, Senator Baucus, and one on which we could seminar on for hours obviously. So, I will try and provide a quick response.

I would say initially by doing a lot of things that this industry has done. They have gone through a structural adjustment period here of significant proportions.

They have moved through it very well, have had some assistance along the line by the macroeconomic factors moving in their direction—a lower dollar, for example—and in the face now of some continued economic recovery in the United States and some increase in demand around the world.

This is an industry that, in many respects, is doing very well indeed; and this manufacturing segment of our base, I think, is pretty dog gone solid right now.

Clearly, the more labor-intensive parts will always be under stress, whether it be in the textile/apparel industry or the footwear or anybody else, because of the labor differential, which means that we either ought to use some of this labor in other areas where it can be even more competitive and rewarded at a higher level, or alternatively, one must do what this industry has done in recent years, and that is substitute capital for labor, reduce the level of labor intensivity, and retain their international competitiveness by shifting in the greater use of capital.

And then, of course, that brings about the adjustment problem of how we fit that labor elsewhere into our society.

I think in our capitalistic society, Max, here in the United States, we have done that pretty well. We have our bumps and bruises; that is the price that we pay for the society in which we live, but we end up with an even higher standard of living at the end of that process.

I think we have probably done it better than any other nation.

Senator BAUCUS. I appreciate that. I am not going to spend much time on this; but unfortunately, as you well know, the average real income for the working family in America has actually declined since 1979. Our standard of living in this country is actually declining, on an average family basis in real terms.

I suggest that all of us—the Administration, Congress, and the American people—are going to have to buckle down and figure out more creative ways to work harder to address this very basic question of how we increase our standard of living.

I just sense that we are in for a long difficult time ahead if we don't do so.

Ambassador YEUTTER. Senator Baucus, I am more optimistic than that on the manufacturing side. Obviously, we are doing very well in the service industries and some other areas in which we have made some moves; but I am more optimistic than that on the manufacturing side as a result of the macro situation that exists today.

We have come through a tough period, but I think we are through it. I suspect there are some economists who might argue the data on whether we have really had a decline in our standard of living, but let's not do that this morning.

Senator BAUCUS. Thank you.

The CHAIRMAN. Mr. Ambassador, I will have a number of questions to ask you, but I will do that in writing in the interest of time and these other panelists who are waiting to testify. Thank you very much for being here this morning.

Ambassador YEUTTER. Thank you, Mr. Chairman.

The CHAIRMAN. The first panel will consist of Mr. Thomas Roboz, President of the Fiber, Apparel Coalition for Trade, Charlotte, North Carolina; Mr. Charles Murray, President and CEO of Endicott Johnson Corporation, testifying on behalf of Footwear Industries of America, Endicott, New York; Ms. Evelyn Dubrow, Vice

President of the International Ladies Garment Workers Union, Washington, D.C.; Mr. Aven Whittington, President of the National Cotton Council of America, Greenwood, Mississippi; and Mr. Gene Brune, Secretary of the National Wool Growers Association, Fountaintown, Indiana.

Will each of the witnesses please come forward?

Let me state again that the witnesses will be limited to a five-minute presentation. We will take their entire statements for the record. We will start with Mr. Roboz.

[The prepared statement of Ambassador Yeutter follows:]

TESTIMONY BY AMBASSADOR YEUTTER
ON THE TEXTILE AND APPAREL TRADE ACT OF 1987

JULY 30, 1987

I appreciate the opportunity to appear before you to explain the Administration's opposition to the Textile and Apparel Trade Act of 1987.

This legislation, though superficially less onerous than the bill which was vetoed by President Reagan more than a year ago, would still wreak havoc throughout the world. And a lot of that havoc would occur here in the United States.

If this Congress has ever been faced with legislation that is totally unpersuasive on its merits, this is it! The case for discarding it is compelling; the case for enacting it is non-existent. Imports of textiles and apparel, in square yards equivalent, are growing only modestly today, at about a 5 percent annual rate, while U.S. textile and apparel exports are increasing at nearly a 20 percent rate on a value basis. The textile bill does not involve unfair trade practices. That is not an issue here. The bill is nothing more than pure protectionism for a special interest group with a seemingly insatiable appetite for limiting competition from abroad. Already our most protected industry by far, it seeks still more protection at the expense of the American consumer.

All indications are that 1986 was a banner year for the U.S. textile and apparel industries. Production, capacity utilization and corporate profits all increased, while inventories and unemployment rates declined. In 1986, fiber consumption of U.S. mills was at the highest level since 1973. This favorable trend has continued into 1987. As of June 1987, the textile and apparel industries employed 35,000 more workers than they did in 1986. Fiber consumption of U.S. mills increased nearly 10% in the first quarter of 1987 compared to the first quarter of 1986. Unemployment rates for the major textile and apparel producing states (Georgia, New York, North Carolina, Pennsylvania, South Carolina and Virginia) are lower than the national unemployment rate of 6.1%. Textile industry profits increased 97% during the first three quarters of 1986 to reach 3.7% of sales. Just last week, for example, a major mill announced that its profits rose 179 percent in the second quarter of 1987.

A number of factors contributed to the improved situation, including an acceleration of consumer spending on textiles and apparel, the decline of the dollar in world currency markets, lower cotton prices, and substantial corporate restructuring within the industry making it more efficient and competitive.

Textiles and apparel are by no means ailing sectors of our economy. The inability of domestic producers to meet demand has resulted in price increases and shortages of some items, causing apparel producers to turn to completely new suppliers of fabric, such as Zimbabwe, to meet their production needs. At the same time, however, American textile exports increased 13 percent in 1986 and apparel exports increased by 22 percent, measured on a value basis. 1986 textile and apparel exports were at the highest levels since 1982. As a result of increased demand and the quotas we negotiated over the last several years, clothing costs have already begun to increase. Clothing prices jumped over 6 percent in the first three months of 1987, the largest rise in a three-month period since 1951. This translates to an annual rate of almost 20 percent! The additional protection that would be provided under the textile bill would escalate prices even more dramatically, affecting low income families most of all. It takes a lot of gall to advocate further import restrictions in an economic environment such as this! The domestic industry obviously believes that Congress will be oblivious to the facts.

The bill is defended in part because apparel imports account for between 33 and 50 percent of our domestic market, depending on the methodology used to calculate this figure. But they fail to mention that rigid quotas would be placed on yarns and fabrics as well -- sectors in which imports account for less than 20 percent of our market. Domestic manufacturers of yarns and fabrics have been able to compete effectively with imports and, in fact, have been able to dramatically increase their exports.

This Administration has done much to assist the U.S. industry. In response to the concerns of the industry, last year we negotiated a stronger Multifiber Arrangement, extending coverage to virtually all textile and apparel products by including previously uncontrolled fibers such as ramie, linen and silk blends. We also reopened our bilateral agreements with Hong Kong, Taiwan and Korea and negotiated tough new agreements with comprehensive fiber coverage to prevent import surges. In addition, we negotiated a new agreement with Japan limiting growth of its textile and apparel exports to a nominal amount. As a result, overall textile and apparel trade from these four countries, which account for 40 percent of all textile and apparel imports into the U.S., will now increase less than one percent annually. Within the last year we also have negotiated agreements with many of our mid-level suppliers, such as India, Pakistan, Malaysia and Indonesia which limit their textile and apparel exports to the U.S. to about 6 percent annual growth. The agreements we have negotiated in the past several years will help limit overall growth in imports.

All of this adds up to a complex system of some 1500 quotas, 200 of which were negotiated or imposed in 1986 alone, contained in 41 bilateral textile agreements. Approximately 80 percent of low-priced imports are controlled by quotas. This is in addition to maintaining textile and apparel tariffs averaging nearly 18 percent, as compared to three percent for all other industries. During the past year we were also able to reduce some of the barriers American exports face in foreign markets. Taiwan reduced significantly a number of tariffs on textile and apparel products and Korea has agreed to phase out its system of import licensing.

The tight quotas on products imported from our largest suppliers definitely have had an effect in curbing imports -- in view of some cases, too much of an effect. Since signing the agreements with Taiwan, Korea, Hong Kong and Japan we have received literally hundreds of requests for quota exemptions or waivers. These requests come from domestic firms who, due to the tight overall caps on trade from these suppliers, suddenly find themselves unable to import goods not available in the U.S. We also have received a number of requests from Senators and Representatives, many of whom supported last year's textile legislation, on behalf of such constituents. We have been unable to comply with most of those requests because the domestic textile and apparel industry representatives with whom we consult are, in most cases, vehemently opposed to granting exceptions for such cases and charge that we are not enforcing our bilateral agreements when we grant waivers. So it is a case of the Administration being damned when we do and damned when we don't.

The Congress must realize that we can't have our cake and eat it too in textiles and apparel. If we dramatically tighten our bilateral agreements, as we have during the past couple of years, we will give our domestic textile and apparel producers more protection from imports. They'll be delighted! But in the process we may create a lot of unhappy buyers here in the U.S., and those buyers represent jobs too. We may protect jobs in one segment of the business, lose them in another segment. And we just may be losing jobs that are more attractive and rewarding than the ones we are protecting. That has been happening this past year, and this bill would further exacerbate the situation.

pursuant to the MFA, we would be forced to abrogate the 41 agreements we have negotiated. One must wonder how long it has been since any nation has abrogated more than 40 international agreements simultaneously. I doubt the U.S. has ever done so, and we ought to ponder seriously the international repercussions of such action. We are not the only residents of this globe. The bill would simply not allow us to live up to the provisions

Passage of textile legislation would have a tremendous impact on American consumers, raising costs and limiting choices significantly. The Council of Economic Advisers estimates that the consumer cost of the restrictions imposed by this bill would range from approximately $25 billion to $37 billion over five years. The bill would also result in significant job loss in the retail sector. The consumer cost per net job saved will rise from $32,894 to $41,561 in 1991, as effects of the bill become more restrictive each year. That is a high price indeed, but it will be further amplified by the job cost and consumer cost of any retaliation which occurs. The European Community has already informed us that it will retaliate if this bill becomes law. Other nations can be expected to follow the EC lead. Thus, it is not only U.S. consumers who will foot the bill for this unneeded additional protection, but some of our most productive and efficient export industries as well. Agriculture, high technology, and aerospace will be appealing retaliatory targets.

Furthermore, passage of the textile bill would discredit our reputation abroad. It would effectively nullify our tariff concessions on textiles and apparel under the U.S.-Israel Free Trade Agreement, and thwart the negotiation of a similar arrangement with Canada. If passed, the bill would violate both the MFA and the General Agreement on Tariffs and Trade (GATT). The United States signed an extension of the MFA just last year, and we should live up to that commitment. If we are now to say to the world that we can no longer play by the MFA's rules, only a few months after participating in their negotiation, who will take our word in the future?

The bill, by setting quotas on all countries, despite the fact that in many cases market disruption can not be justified, with annual growth limits to one percent is a clear violation of the MFA. Since our bilateral textile agreements were negotiated of our bilateral agreements; including the quotas on various product categories, the "flexibility" clauses which allow limited shift between products, and the borrowing of limited quota from future years, as well as the consultation procedures.

Leaving aside the MFA, we could not convince any country that the draconian measures of the textile bill are in conformity with other GATT rules. Permanent protection without demonstrating injury is a clear violation of GATT principles. The compensation bill handed to us by our trading partners would be enormous. And we would hurt some of the poorest countries most. After negotiating extremely tight quotas on many traditional Far Eastern exporters, such as Taiwan, Korea, Hong Kong and Japan, which permit less than an average of one percent annual growth, we last year allowed increased access to the Philippines, Jamaica, Haiti and the Dominican Republic (all these countries use significant American materials such as U.S.-made fabrics in their production). Should the textile bill become law, these countries would be forced to severely cut back their production for the U.S. market.

I am also concerned about potential damage to the Uruguay Round of trade negotiations. These negotiations represent our best opportunity for opening markets to U.S. exports in the coming years. Passage of this legislation would undercut our negotiating credibility by calling into question our commitment to honor our existing international obligations, let alone new ones.

We simply cannot charge around the world, setting trade rules with impunity. That reflects an arrogance that is unseemly and out of character for the United States. If we, nevertheless, choose to demonstrate that quality, let us recognize that it will cost us the respect of more than 90 nations who are members of the GATT. That is too high a price to pay under any circumstances. It is simply incredulous when applied to the legislative proposal befofe you today.

STATEMENT OF THOMAS N. ROBOZ, PRESIDENT, FIBER, FABRIC, APPAREL COALITION FOR TRADE, CHARLOTTE, NC

Mr. Roboz. Mr. Chairman, let me open by thanking you again for coming down to Charlotte, North Carolina to look at the problem directly, and I had the pleasure of meeting you.

As you stated, I am President of the Fiber, Fabric, Apparel Coalition. In addition, I am Chairman and Chief Executive Officer of Stanwood Corporation, a diversified apparel manufacturer with headquarters in Charlotte, North Carolina.

I am former Chairman of the American Apparel Manufacturers Association.

I think you should know that FFACT is a coalition representing nearly every segment of the apparel, textile, fiber and footwear industries.

We are comprised of 12 associations and the industry's two major unions. Collectively, we speak for more than 30,000 businesses, farms, ranches, and nearly two million American workers.

In the last Congress, both Houses voted overwhelmingly for the Textile, Apparel Trade Enforcement Act, and the House came within eight votes of overriding the President's veto.

After that veto was sustained, and after it was determined that no further help was coming from the Administration, the sponsors of that bill determined to fashion new legislation that would do two things: one, solve our import problem, and two, have it enacted into law.

S. 549 is the result of those efforts, and it clearly addresses the objections raised by opponents to the previous bill.

Opponents said that the bill discriminated against certain countries. The new bill has global quotas that do not discriminate.

Opponents said the President would like flexibility in implementing the quotas. The new global quotas would allow that flexibility.

Opponents said the bill violated GATT. The new bill is GATT-compatible and it provides compensation by authorizing cuts of our textile and apparent tariffs.

Opponents said the bill violated bilateral agreements. The new bill provides the Administration the flexibility to keep those agreements, to terminate them under their own terms, or to renegotiate.

They also said that rollbacks in trade would provoke retaliation and drive up consumer costs. In this bill, there are no rollbacks, and it includes a one percent annual growth rate, which is the projected long-term growth of the domestic market.

Our industry contributed $21 billion of last year's $170 billion trade deficit. Textile and apparel imports in 1986 totalled 12.9 billion yards, 19 percent higher than in 1985. Since 1980, imports have more than doubled, and they now account for more than half of our market.

Since 1973, we have lost 640,000 jobs, 300,000 of those since 1980. Yet we still employ more than two million Americans.

We did not lose those jobs because we are inefficient. A consultant study shows that we are among the most efficient manufacturers in the world.

For instance, it takes the average U.S. apparel plant just two-thirds of the time to make a dozen men's slacks as it takes to make the same slacks in Taiwan. We are improving on this efficiency through Government, industry, and labor cooperation in automation projects and through improved communications with our suppliers and our customers.

We did not lose those jobs because American consumers are saving money by buying imports. A reliable survey, which is attached to my statement, shows that last year, consumers actually paid more for imports than they did for domestic products.

Those jobs were lost because countries, primarily in the Far East, pay their workers as little as 16 cents an hour to compete with American workers making an average of little more than $6.00 an hour.

Imports continue to take our market and our jobs because the Multifiber Arrangement, which is the basis of our restraint program, is not working.

And it is not working because the bilateral agreements have not been comprehensive in product coverage, and they have not been comprehensive in the country coverage.

It is not working because the United States restraint program is operated by a bulky interagency committee that is slow and reluctant to act on rising imports and because the administration of the program has been woefully inadequate.

That is why FFACT believes that the only solution lies in legislation. Unfortunately, it will not be helped by the generic trade legislation pending before Congress because it cannot solve the wage disparity which underlies our problem.

We will not be helped by the decline of the dollar because most of our imports come from countries with currencies pegged to the dollar.

We will be helped by the passage of the Textile and Apparel Trade Act of 1987. It will provide the relief so desperately needed without violating international trade rules and without causing hardship for American consumers.

A study by the ICF, Incorporated concluded that passage of the bill would create 252,000 jobs and provide U.S. budget savings of as much as $280 million this year and between $208 million and $504 million next year.

A study by John D. Greenwald and Robert C. Cassidy, two respected trade attorneys with extensive Government experience, found that the bill is compatible with the General Agreement on Tariffs and Trade.

The Textile and Apparel Trade Act of 1987 says that in 1987 imports of textiles and apparel shall not exceed 101 percent of their 1986 levels on a category-by-category basis.

The bill gives the Administration total flexibility in operating the program. The Administration can divide the aggregate limits in any fashion it prefers and could, in fact, continue to control imports through bilateral agreements negotiated under the MFA.

A unique feature of S. 549 is the provision for the Administration to negotiate duty reductions of as much as 10 percent on textiles and apparel. These reductions would be in the form of compensation to exporting countries for the new quotas imposed, and this compensation would fulfill GATT requirements. Other provisions of the bill are also compatible with GATT.

This bill is truly global in scope. Mr. Chairman, we hope this committee will act favorably on S. 549. Without it, the future of our industry and its two million workers is bleak. Without it, apparel production surely will continue to move offshore and our market will be turned over to others.

We appreciate the opportunity to be here today and would be pleased to respond to any questions you may have.

[The prepared statement of Mr. Roboz follows:]

STATEMENT OF

THOMAS N. ROBOZ

ON BEHALF OF THE

FIBER, FABRIC, APPAREL COALITION FOR TRADE

Thank you, Mr. Chairman. I am Thomas N. Roboz, President of the Fiber, Fabric, Apparel Coalition for Trade. In addition, I am Chairman and Chief Executive Officer of the Stanwood Corporation, a diversified apparel manufacturer with headquarters in Charlotte, North Carolina. I have served the American Apparel Manufacturers Association as its Chairman and as Chairman of its Trade Policy committee.

FFACT is a coalition representing nearly every segment of the apparel, textile, fiber and footwear industries. We are comprised of 12 associations and the industry's two major unions. Collectively, we speak for more than 30,000 businesses, farms, ranches and nearly two million American workers.

We are here today, Mr. Chairman, in strong support of the Textile and Apparel Trade Act of 1987 (S.549).

In the last Congress both Houses voted overwhelmingly for the Textile, Apparel Trade Enforcement Act and the House came within eight votes of overriding the President's veto. Many members of this Committee supported that effort and we are greatful to you for that support.

After the veto was sustained, we met with a high-ranking Administration official and asked him what we could expect in terms of tighter and more strongly enforced controls. We were told that we could expect no more than is currently being done.

So, facing a dead end with the Administration, the sponsors of the previous bill determined to fashion new legislation that would do two things: (1) solve our import problem and (2) be enacted into law. S. 549 is the result of those efforts, and it clearly addresses the objections raised by opponents to the previous bill:

- Opponents said the bill discriminated against certain countries. The new bill has global quotas that do not discriminate.
- Opponents said the President would lack flexibility in implementing quotas. The new global quotas will allow that flexibility.
- Opponents said the bill violated GATT. The new bill is GATT compatible and it provides compensation by authorizing cuts of our own textile and apparel tariffs.
- Opponents said the bill violated bilateral agreements. The new bill provides the Administration the flexibility to keep those agreements, to terminate them under their own terms, or to renegotiate.
- And they said that the rollbacks in trade would provoke retaliation and drive up consumer costs. In this bill there are no rollbacks and it includes a one percent annual growth rate, which is the projected long-term growth of the domestic market.

In recent weeks this Committee and the entire Senate have been grappling with major trade legislation designed to help overcome our trading problems. We commend you for the effort. Our $170 billion trade deficit needs attention.

Apparel and textile imports contributed $21 billion of that deficit in 1986. Textile and apparel imports in 1986 totaled 12.9 billion yards, the highest year in history and 19 percent higher than in 1985. However, these figures include only cotton, wool and man-made fiber products. Last year another 685 million yards entered the U.S. in the form of ramie, silk and linen. Since 1980 textile and apparel imports have more than doubled. The growth has continued this year with imports for the first five months up 5.5 percent from last year and imports of apparel alone up 12.5 percent.

The year 1973 was a peak year for our industry. We employed 2.5 million people. Last year we employed 1.8 million people. That is a loss of 640 thousand jobs since 1973. Since 1980, 300 thousand Americans have lost their jobs in apparel and textile plants.

Those jobs were not lost because we are a backward or inefficient industry. To the contrary, the U.S. apparel and textile industry is the most productive in the world. For example, in Taiwan it requires 6.2 hours to manufacture a dozen pairs of men's slacks, according to industry consultants. The same dozen pairs of slacks can be made in 4.1 hours in the typical American plant, and in 3.4 hours in the best American plants, of which there are many.

We are not sitting complacently on this relatively high level of productivity, but actively seeking ways to improve it. One project which bears great optimism is the Textile Clothing Technology Corporation, a unique cooperation among industry, government and labor in the development of automated sewing and fabric moving equipment. That project has been in the works for five years and we see in the very near future the actual commercialization of some of the equipment.

That is the hardware part of it. We also are working throughout the chain -- from retailers to apparel manufacturers, to fabric makers to fiber suppliers -- to improve communications through computer technology and universal product code marking. These efforts should reduce the time it takes to get our products on the retail shelves and improve on the greatest advantage we have over low-wage imports -- our nearness to our market.

Those jobs were not lost because the American consumer was saving money by buying imported apparel. The consumer actually was paying more for imports than he was paying for Made in U.S.A. products. According to a survey by Market Research Corporation of American (MRCA), the average price paid for a domestically made man's garment was $6.42 in 1986, compared to $6.60 for an import. Women's wear imports also were more expensive, costing $8.31 each, compared to $7.54 for the domestic item. This survey covered a demographically sound sample of Americans and included all types of apparel from socks and underwear to suits. The relatively low price of the average purchase reflects the more frequent purchase of low-cost items such a hosiery and underwear. (The MRCA survey is attached to this statement.)

This survey, we believe, provides a good example of what happens when imports begin to dominate a market. In 1974, when apparel imports were relatively low, the average domestic garment was 81 cents more expensive than its imported counterpart. Last year, with imports taking more than half the market, the domestic item was 48 cents cheaper.

Those jobs were lost because countries, primarily in the Far East, pay their workers as little as 16 cents an hour in the case of China to compete with American workers. And it is not as though the U.S. industry is overpaying its workers. Most of the apparel jobs are entry-level positions and they earn slightly more than $6 an hour.

Barry Bluestone of the University of Massachusetts at Boston and Bennett Harrison of MIT recently completed a study of job creation in the 1980s.They found that 44 percent of the 9.3 million jobs created from 1979 to 1985 were low paying, $7,400 or less. Only 10 percent of new jobs were high paying, $29,600 or more. By contrast, less than one out of five new jobs created between 1963 and 1973 was low paying and nearly half were high paying.

Bluestone and Harrison point out that "Manufacturing has not added a single new job to the economy since 1979. Virtually all the employment growth has been in services and trade -- industries with twice the proportion of low-wage jobs as the manufacturing sector."

It appears to us that the United States has two alternatives: accept a steadily declining standard of living, or take action to prevent the continued inroads of imports into our manufacturing base. The first is unacceptable to all Americans. The second can be accomplished by a dedicated Congress and Administration.

An arm of Congress, itself, recognizes that steps must be taken to preserve this industry. The Office of Technology Assessment recently published a study titled "The U.S. Textile and Apparel Industry, a Revolution in Progress." It stated that "The United States is one of the few nations that has left its markets largely open to foreign sales of textiles and apparel, and one of the few that has paid little attention to the research needs of its domestic industry. As a result, imports have flooded domestic markets. Unless policy action is taken in the next few years, there is reason to be concerned about the very existence of many parts of the industry."

I cannot speak for other industries, but in the case of apparel and textiles it is an accepted fact around the world that trade will be controlled. More than 50 countries have signed the Multifiber Arrangment which provides the basis for negotiating bilateral textile and apparel quota agreements.

The United States has negotiated 38 bilateral agreements, a few of which probably have somewhat slowed the rate of import growth. The European Economic Community has done much better, limiting import growth to around 7 percent a year and, in fact, rolling back Hong Kong, Korea and Taiwan by 11 percent between 1979 and 1983.

However, as demonstrated by our horrendous import growth, the MFA has not worked well for the United States.

One reason it has not worked is that the bilaterals negotiated have not been comprehensive. For example, in 1981 the United States renegotiated its bilaterals with the three largest suppliers -- Hong Kong, Korea and Taiwan -- to reduce the growth rate provided on specific categories to one percent or less. Yet in 1982, apparel imports from those countries increased five percent and they grew another 14 percent in 1983. This growth came largely in categories not covered by quotas.

Late in 1983, the Administration began bringing these new categories under quota. The result of this action? A shift in production to a group of secondary suppliers. Imports in the following year, 1984, increased 52 percent from India, the Philippines, Indonesia, Singapore, Sri Lanka and Thailand. More recently, imports of apparel from China last year were allowed to grow at 70 percent, reaching a level of 715 million yards.

The MFA does not work for the United States because the U.S. import control program is operated by a bulky interagency committee that is slow and reluctant to act on rising imports, and because the administration of the program has been woefully inadequate.

A recent report by the Congressional Budget Office confirms the fact that the MFA is not working. The report says that throughout the 1970s "the MFA's quotas on textile and apparel products apparently did not substantially reduce the supply of foreign textile products, and therefore did little to aid the domestic industry."

The report goes on to claim that "In the 1980s, despite the more rapid rate of increase in imports, the restraint agreements probably provided more protection." It added, however, that the restraints did not allow domestic producers to increase output or prices. "Rather, the restraints limited the rate at which the industry contracted," it concluded.

Mr. Chairman, it is clear to us at FFACT that the Administration is never going to tightly administer the MFA. It also is clear to us that our solution lies in legislation.

It has been suggested that our salvation lay in passage of generic trade legislation pending before Congress. Many of these proposals have merit and we could support them. However, emphasis on opening other markets does not solve our problem. Helpful as that and other remedies in the omnibus bill may be, they do not address the fundamental problems created by the difference in wages -- and thus in living standards -- between the United States and the countries which are shipping us apparel and textiles.

It also has been suggested that our problem has been solved by the falling dollar. Sadly, this is not the case. The declining dollar may be of some value in our trade with Western Europe. But the overwhelming share of our imports come from less-developed and newly industrialized countries whose currencies rise and fall with the dollar, or in fact have depreciated faster than the dollar. Also, imports from Japan rose 14 percent last year when the dollar was plunging against the yen.

We at FFACT believe that S. 549 will provide the relief so desperately needed by our industry without violating international trading rules and without causing hardship for American consumers.

S. 549 merely regulates import growth in textiles and apparel at the rate of growth of the American market. It says that, contrary to the experience of the last few years, domestic manufacturers will have the opportunity to share in the growth of their own market, small as that growth may be. It does not deny importers any of the market share they have gained because it does not reduce imports. In truth, the bill would guarantee more than half our market to imports.

Mr. Chairman, I have mentioned studies by the Office of Technology Assessment and the Congressional Budget Office which suggest the current restraint program does not work and that Congress and the Administration should take steps to correct it. We also have contracted a number of studies by outside consultants of the effect of passage of S. 549. The results have been shared with each member of the Senate and they are uniformly encouraging:

- A study by Economic Perspectives Inc. concluded that passage of the bill is unlikely to trigger "significant retaliation against U.S. agriculture."
- A study by ICF Incorporated concluded that passage of the bill would create 252,000 new jobs. It also found that passage of the bill would create U.S. budget savings of between $110 million and $280 million this year and between $208 million and $504 million next year.
- A study by John D. Greenwald and Robert C. Cassidy, two respected trade attorneys with extensive government experience, found that the bill is compatible with the General Agreement on Tariffs and Trade.

The Textile and Apparel Trade Act of 1987 says that in 1987 imports of textiles and apparel shall not exceed 101 percent of their 1986 levels on a category-by-category basis. Future yearly growth would continue at one percent, the long-term growth rate of the American market.

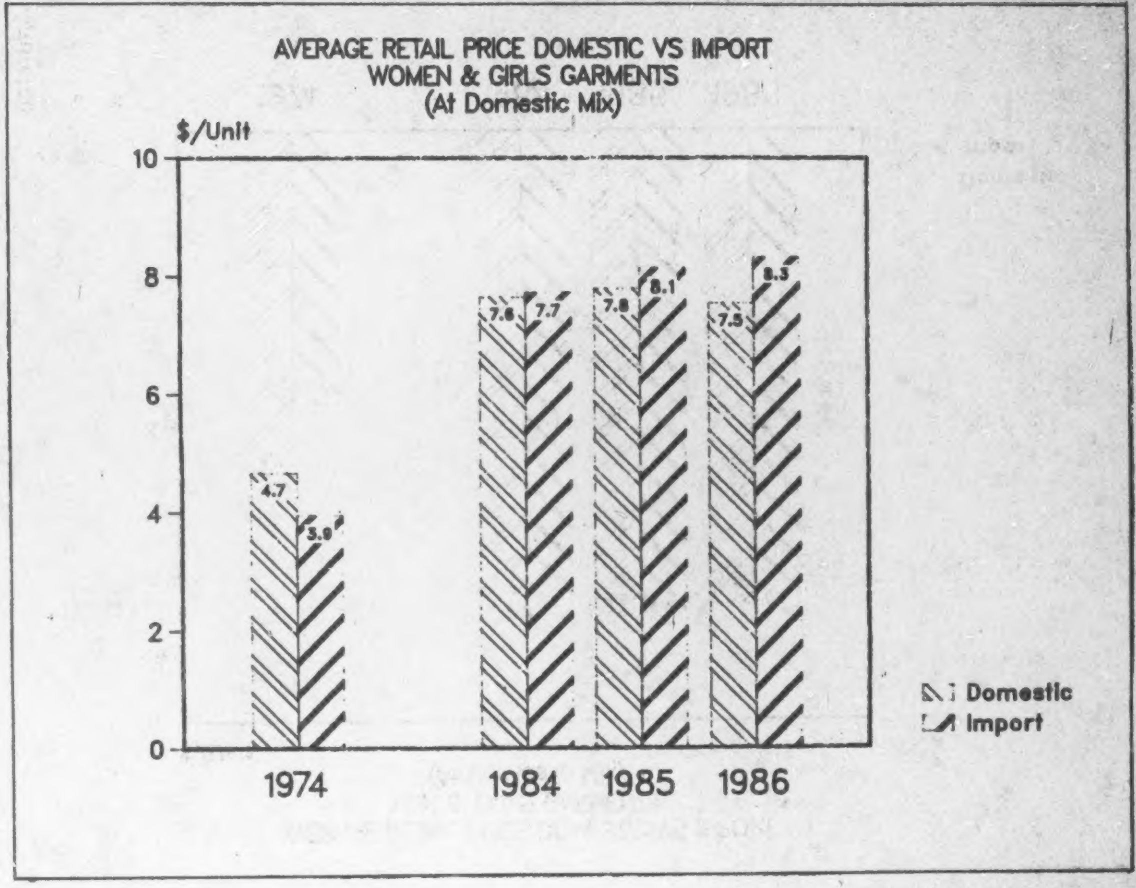
The bill gives the Administration total flexibility in operating the program. The Administration can divide the aggregate limits in any fashion it prefers. In fact, the Administration could continue to control imports through bilateral agreements negotiated under the MFA.

A unique feature of S. 549 is the provision for the Administration to negotiate duty reductions of as much as 10 percent on textiles and apparel. These reductions would be in the form of compensation to exporting countries for the new quotas imposed. This compensation would fulfill GATT requirements.

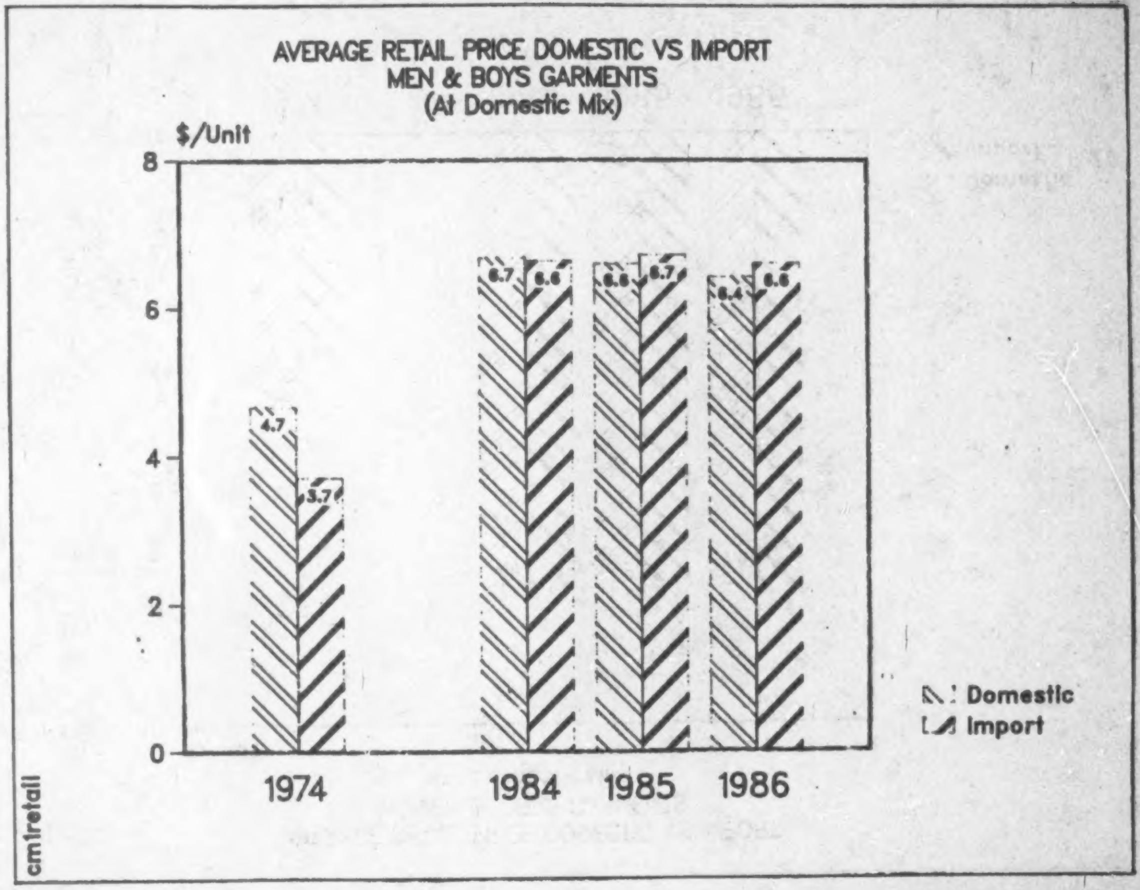
Other provisions of the bill are compatible with GATT. GATT requires that quotas be global and single out no countries. This bill is truly global in scope. GATT also requires that relief not be permanent and this bill provides a ten-year review of the quota system.

Finally, it was claimed that passage of the textile/apparel bill considered by the last Congress would result in retaliation against other American products, particularly agricultural products. We submit that this new bill removes that danger. It has no rollbacks. It treats all countries equally. It allows the honoring of prior agreements. And it pays its own international bill by providing compensation to the rest of the world.

Mr. Chairman, we hope this Committee will act favorably on S. 549. Without it, the future of our industry and its two million workers is bleak. Without it, apparel production surely will continue to move offshore and our market will be turned over to others.



AVERAGE RETAIL PRICE DOMESTIC VS IMPORT
WOMEN & GIRLS GARMENTS
(At Domestic Mix)



AVERAGE RETAIL PRICE DOMESTIC VS IMPORT
MEN & BOYS GARMENTS
(At Domestic Mix)

Women & Girls

Apparel Domestic: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	34.0	$53.84	0.7%	29.8	$55.18	0.6%	28.9	$57.10	0.5%
Suits/Blazers	62.5	41.01	1.2	55.3	39.05	1.1	58.6	37.79	1.1
Dresses	245.2	24.28	4.7	235.1	24.27	4.7	224.8	26.25	4.2
Skirts	144.5	16.09	2.8	136.6	18.51	2.7	164.3	17.86	3.1
Shorts	104.7	7.18	2.0	109.8	7.00	2.2	115.9	6.79	2.2
Slacks	268.8	12.64	5.2	249.7	13.24	2.5	285.3	12.30	5.4
Jeans	134.8	15.49	2.6	126.8	15.78	5.4	117.9	15.93	2.2
Blouses & Shirts	701.6	9.97	13.6	655.6	10.50	13.2	665.0	10.35	12.5
Sweaters	172.8	14.26	3.3	191.5	14.25	3.8	202.4	14.23	3.8
Underwear	820.4	3.72	15.9	754.8	3.78	15.2	783.0	3.66	14.7
Nightwear	240.7	10.18	4.7	226.2	10.27	4.5	222.7	10.33	4.2
Hosiery	1909.5	1.47	36.9	1835.3	1.44	36.9	2044.7	1.39	38.5
Other	330.9	8.64	6.4	352.4	7.31	7.1	395.7	6.96	7.5
Totals	5170.4	$7.65	100.0%	4979.1	$7.79	100.0%	5309.2	$7.54	100.0%

Women & Girls

Apparel Imports: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	40.7	$31.48	3.9%	39.5	$31.71	3.4%	42.7	$30.81	2.9%
Suits/Blazers	21.1	33.08	2.0	18.4	35.52	1.6	23.6	35.64	1.6
Dresses	43.0	24.45	4.1	40.2	25.85	3.4	55.1	28.94	3.8
Skirts	24.7	16.57	2.3	29.2	19.32	2.5	46.8	20.89	3.2
Shorts	40.4	7.76	3.8	44.2	8.23	3.8	69.0	7.80	4.7
Slacks	57.0	14.08	5.4	62.9	14.90	5.4	72.2	15.60	4.9
Jeans	45.7	14.43	4.3	41.4	14.71	3.5	50.9	15.29	3.5
Blouses & Shirts	337.3	9.93	32.1	341.5	10.68	29.1	435.6	11.25	29.8
Sweaters	174.9	16.91	16.7	222.9	16.97	19.0	266.2	17.19	18.2
Underwear	132.9	3.93	12.7	154.8	3.86	13.2	185.7	4.15	12.7
Nightwear	27.2	10.74	2.6	36.9	10.73	3.1	39.8	10.98	2.7
Hosiery	28.9	1.45	2.8	47.8	1.43	4.1	52.4	1.53	3.6
Other	76.6	10.15	7.3	92.0	11.11	7.9	122.2	11.03	8.4
Totals	1050.4	$12.53	100.%	1171.1	$12.75	100.0%	1462.2	$13.19	100.0%
Adj. to Domestic Mix		$7.72			$8.13			$8.31	

Source MRCA consumer Diary Panel

*Current Dollars

Men & Boys

Apparel Domestic: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	46.6	$35.61	1.4%	43.0	$34.58	1.3%	37.1	$35.4	1.1%
Suits/Sportcoat	34.8	89.82	1.0	33.1	89.91	1.0	30.3	87.76	0.9
Slacks/Jeans	389.2	13.40	11.6	372.0	14.79	11.2	374.7	13.72	11.0
Shorts	87.9	6.58	2.6	89.7	6.90	2.7	109.0	6.82	3.2
Dress Shirts	101.5	12.67	3.0	101.7	12.78	3.1	96.2	13.10	2.8
Knit Sport Shirt	361.0	6.85	10.7	316.1	6.63	9.5	346.3	6.33	10.2
Woven Sport Shirt	86.8	10.72	2.6	85.7	11.42	2.6	95.6	10.91	2.8
Sweaters	71.4	15.18	2.1	68.8	14.99	2.1	67.9	15.68	2.0
Underwear	849.5	1.92	25.2	831.9	1.99	25.1	843.9	1.98	24.9
Nightwear	78.2	8.37	2.3	79.3	8.65	2.4	75.4	7.96	2.2
Hosiery	976.0	1.27	29.0	1000.7	1.28	30.2	1016.6	1.29	30.0
Other	287.6	9.17	8.5	269.8	7.14	8.8	301.2	9.25	8.9
Totals	3370.5	$6.68	100.0%	3311.8	$6.60	100.0%	3394.2	$6.42	100.0%

Men & Boys

Apparel Imports: Share of Key Categories

	1984			1985			1986		
	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share	MM Units	Avg. Price	Share
Coats	51.7	$27.60	7.9%	54.8	$28.19	7.6%	54.6	27.98	6.6%
Suits/Sportcoat	9.8	76.77	1.5	11.2	72.82	1.6	11.7	69.91	1.4
Slacks/Jeans	66.1	12.11	10.1	58.5	11.97	8.1	70.8	12.28	8.6
Shorts	26.1	7.54	4.0	29.9	8.66	4.1	46.4	7.79	5.6
Dress Shirts	83.4	10.99	12.7	97.3	11.32	13.5	97.8	11.06	11.8
Knit Sport Shirt	118.0	9.36	18.0	114.4	9.54	15.8	143.3	9.26	17.4
Woven Sport Shirt	104.4	9.58	16.0	125.1	10.10	17.3	137.3	10.12	16.6
Sweaters	56.9	15.68	8.7	70.3	16.29	9.7	68.3	16.83	8.3
Underwear	19.9	2.11	3.0	17.2	2.42	2.4	33.1	2.28	4.0
Nightwear	15.3	9.73	2.3	19.6	9.98	2.7	24.6	9.45	3.0
Hosiery	18.8	1.35	2.9	21.5	1.47	3.0	24.0	1.40	2.9
Other	84.5	9.58	12.9	102.4	10.06	14.2	113.8	11.20	13.8
Totals	654.9	$12.39	100.0%	722.2	$12.77	100.0%	825.7	12.28	100.0%
Adj. to Domestic Mix		$6.63			$6.71			$6.60	

Source MRCA consumer Diary Panel

*Current Dollars

The CHAIRMAN. Thank you. Mr. Murray.

STATEMENT OF CHARLES C. MURRAY, PRESIDENT AND CHIEF EXECUTIVE OFFICER, ENDICOTT-JOHNSON CORP., ENDICOTT, NY, TESTIFYING ON BEHALF OF THE FOOTWEAR INDUSTRIES OF AMERICA, ARLINGTON, VA

Mr. MURRAY. Thank you, Mr. Chairman, and members of the committee for asking me to testify here today. I am Charles Murray, President of the Endicott-Johnson Corporation. We employ a total work force of 5,200 and currently provide pensions to over 3,500 former employees in New York, Pennsylvania, Missouri, Georgia, and Tennessee.

I also serve as Chairman of the Footwear Industries of America and, as such, want it clearly known that we support strongly the passage of S. 549 by the Congress.

No manufacturing industry has been hammered by imports as has the nonrubber footwear industry. No other industry has seen so much of the U.S. market lost to imports so rapidly as has the nonrubber footwear industry.

No American industry has lost as much production and as many jobs in proportion to its size because of imports as has our industry. No other industry has worked so hard or availed itself of as many of the trade statutes—and to little or no avail—as we have.

If this industry is to survive, we are left with no other option than S. 549.

I am going to summarize some of the salient facts, rather than go into detail. So, after experiencing a year where import penetration has reached 81 percent in the footwear industry, it is hard to believe that imports ever took less than 10 percent of the U.S. market as it did in 1963.

They had 47 percent of the U.S. market in 1977, the year when the Orderly Marketing Agreements with Korea and Taiwan went into effect. When the OMAs were not extended by the President in 1981, U.S. shoe production and U.S. imports were roughly equal.

In every year since 1981, however, the U.S. production level has fallen as imports have grown by 100 million pairs a year.

Clearly, without some action to stem this flood of imports, they will continue until the U.S. industry is wiped out entirely.

In slightly more than 20 years, domestic production has been cut in half. Since 1981, 300 plants have been closed. Our employment level fell over 35 percent between 1981 and 1986.

The nonrubber footwear industry employs a large proportion of women and minority workers in rural areas where they may provide the main or sole source of employment for the region and help support or provide the only salaried income for family farmers.

Over the years, the domestic footwear industry has utilized existing trade remedy laws in good faith, only to be denied justified import relief at every critical juncture.

Had effective import relief been granted at these times, we probably would not be here today asking for the passage of this bill. Our odyssey here today is strewn with unsuccessful attempts to gain relief under the trade laws.

The Reagan administration has twice refused to grant this industry import relief under the escape clause following affirmative decisions by the International Trade Commission.

The overwhelming majority of this industry's petition under Section 301 against eight countries, alleging numerous unfair trade practices, was all but dismissed by the same Administration.

We have undertaken numerous countervaling duty law cases against the developing countries which subsidize their exports of footwear to the United States.

Relief, when it has come, has been too little and too late.

While this administration has surely helped bring about the decline of our industry, former administrations are not blameless in this regard.

Under the escape clause, President Nixon provided no import relief for this industry even though he had initiated the case in 1970.

The Ford administration had responded similarly, and only President Carter granted our industry relief with orderly marketing agreements; and that relief was flawed by the inability or unwillingness of the Carter Administration to effectively control imports from other countries.

President Reagan, despite the affirmative recommendation that relief be continued, turned down the industry in mid-1981.

We tried using section 201 in 1984 and 1985, but to no avail. And we are frankly tired of trying section 201 as this committee, I am sure, is tired of having us try it.

Is it any wonder we are turning to Congress for some relief?

[The prepared statement of Mr. Murray follows:]

TESTIMONY OF CHARLES MURRAY
PRESIDENT, ENDICOTT-JOHNSON CORPORATION
TO THE FINANCE COMMITTEE
UNITED STATES SENATE
ON S.549, THE TEXTILE AND APPAREL TRADE ACT OF 1987

JULY 30, 1987

I am Charles Murray, President of Endicott-Johnson Corporation. Endicott-Johnson employs a total workforce of 5,165, and currently provides pensions to 3,528 former employees. We have facilities in Endicott, New York, our headquarters, and Pennsylvania where we employ 3,138 and 385 workers, respectively. We also have manufacturing facilities in Missouri, employing 527 workers, where we manufacture under the brand-name Trim Foot. We make Georgia-Durango boots in Georgia and Tennessee, and employ a total of 1,115 workers in these two states. I also serve as Chairman of the Footwear Industries of America, Inc., the trade association representing domestic manufacturers of nonrubber footwear and their suppliers. The nonrubber footwear industry strongly supports the passage of S.549 by Congress.

I.

No major manufacturing industry in this country has been as hammered by imports as has the nonrubber footwear industry. No other industry has seen so much of the U.S. market lost to imports so rapidly as has the nonrubber footwear industry. No American industry has lost as much production and as many jobs in proportion to its size because of imports as has our industry. No other industry has worked so hard or availed itself of as many of the trade statutes — and to little or no avail — as we have. If this industry is to survive, we are left with no other option than S.549.

Let me recount for you what has happened to this basic American industry over the last twenty or so years. After experiencing a year where the import penetration level reached 81 percent and is now almost 83 percent for the first five months of 1987, it is hard to believe that imports ever took less than 10 percent of the U.S. market. Yet this was true as late as 1963, which was really not so long ago. Since that time, shoe imports have steadily edged upwards, reaching 368 million pairs, or 47 percent of the U.S. market, in 1977, the year when Orderly Marketing Agreements with Korea and Taiwan went into effect. When the OMAs were not extended by President Reagan in 1981, U.S. shoe production and U.S. imports were roughly equal, with imports accounting for just one half of our market.

In every year since 1981, however, the U.S. production level has fallen as imports have grown by 100 million pairs per year. In 1986 shoe imports totalled 941 million pairs -- 12 percent higher than the import level in 1985, and they are running at last year's record levels in 1987. Clearly, without some action to stem this flood of imports, they will continue until the U.S. industry is wiped out entirely.

While this tremendous growth in imports has been occurring, domestic production has been forced to shrink. Domestic production peaked at 642 million pairs in 1968. During the OMA period, production declined at about 3 percent per year. Since the end of the OMAs, the declines have been much more dramatic: 11 percent between 1983 and 1984, 12 percent between 1984 and 1985, and another 12 percent between 1985 and 1986. Thus, in slightly more than ten years, domestic production has been cut in half due to the rising level of imports into this country. Lower production levels and higher import levels have taken their toll on domestic companies, which have been forced to close plants permanently. Since 1981, over 300 plants have been closed. Over one hundred of these closings occurred in one year alone.

It has thus been the industry's employees who have faced the day-to-day reality of the hammering effect of imports on their industry. In 1981, the industry employed 146 thousard workers in direct manufacturing alone and another 95 thousand in support industries. This employment level fell over 35 percent between 1981 and 1986, and last year the industry employed only 93 thousand workers in direct manufacturing with concurrent declines among suppliers.

The true impact of these layoffs becomes more clear when you consider that the nonrubber footwear industry employs a large proportion of women and minority workers, who, due to the nature of the work involved in making shoes, are generally without the skills required to find new employment readily. Further, many footwear factories are located in rural areas, where they may provide the main or sole source of employment for the region and help support, or provide the only salaried income for family farms. It may be impossible to quantify in dollar terms the hardships endured by these laid-off workers, but it is possible to guard those remaining jobs, in the hopes that the lay-offs will stop. The quota legislation being considered now will go a long way towards this goal.

II.

We have not sat helplessly by and watched our industry go down the drain. We placed our trust and confidence in the laws of the land and the commitments of our government officials, only to be sadly disabused by failure to deliver effective import relief, or, indeed, any import relief. Over the years, the domestic footwear industry has utilized existing trade remedy laws in good faith only to be denied justified import relief at critical junctures. Had effective import relief been granted at these times, our industry would certainly be more vibrant and successful than it is now and we probably would not be here today asking for the passage of this bill. As it is, we have no alternative but to seek a legislative solution, one which will simply permit us to hold on to the small remaining portion that is left of our industry.

We have followed the laws and played by the rules, but as this Committee well knows, successive administrations have shown us by their inaction or actions that we squandered precious time and substantial resources and should have come to Congress for relief in the first place. Our odyssey here today is strewn with unsuccessful attempts to gain relief under the trade laws.

- The Reagan Administration has twice refused to grant this industry import relief under the "escape clause" following affirmative decisions by the International Trade Commission.
- The overwhelming majority of this industry's petition under Section 301 — against 8 countries alleging numerous unfair trade practices — was all but dismissed by this same Administration.
- We have undertaken numerous countervailing duty cases against developing countries which subsidize their exports of footwear to the

U.S. market. Relief, when it has come, has been too late and too little. The case of Brazil is illustrative of the problem. Brazil, the third largest supplier to the U.S. market, not only violated its commitment to offset its rebate of export taxes on footwear, but has repeatedly violated its commitment under the Subsidies Code to terminate its subsidies. With respect to the latter, Brazil claimed balance of payments problems, the U.S. failed to act and Brazil continues to receive the injury test in U.S. countervailing duty cases.

While this Administration has surely helped bring about the decline of our industry, former Administrations are not blameless in this regard. Under the "escape clause," President Nixon provided no import relief for this industry even though he had initiated the case and clearly implied he would provide import relief. Several years later the Ford Administration responded to another "escape clause" case by rejecting import relief despite a commitment in December 1974 that he would provide import relief if the industry petitioned under the "escape clause." Only President Carter granted our industry relief under the "escape clause" through two Orderly Marketing Agreements, but that relief was flawed by the inability or unwillingness of the Carter Administration to effectively control import growth from other countries during the first three years of the four year relief period. By the fourth year, imports had finally leveled off, and domestic shoe production had stopped its precipitous decline. But it was, of course, the final year of the relief period and President Reagan, despite an affirmative USITC recommendation that the relief be continued, turned the industry down in mid-1981.

We tried to use §201 in 1984 and 1985, but again to no avail. The footwear industry is certainly as tired of trying §201 as this Committee is of instituting our §201 cases at the ITC!

The much talked-about trade bill recently passed by the Senate gives us little solace. We did all the things called for and still got denied relief. If anything, it will wound our industry even more because of the tariff-cutting authority it grants the President.

Is it any wonder why we are turning to the Congress for relief that the ITC says we deserve, but the White House has denied?

III.

It is important to understand why the industry has had competitiveness problems under the prior period of import relief and since. While a number of firms have invested heavily in available state-of-the-art technology, this practice has been very uneven throughout the industry as a whole. It is certainly legitimate to ask why, if these technologies are currently available, the industry has not made wider use of them.

Data gathered by the Census show that the industry tripled its level of capital expenditures during the period of import relief, rising from $34.5 million to $104.1 million. This level of investment clearly indicates that the industry made serious efforts to improve its competitiveness during the relief period, but there is no question that more could have been done. The primary reason more was not done was that effective import relief was never provided.

Korea and Taiwan were restricted, but imports from other the foreign suppliers grew to offset all rollbacks on these countries, and then some. Domestic production declined instead of increased and there was no incentive to invest more.

Following the termination of import relief, capital expenditures in the U.S. industry declined significantly, primarily because imports grew at unprecedented levels and factories have shut down at the rate of more than one a week for six years. There is little incentive to make additional capital investment when intense import competition makes even short-term survival problematic. The ability to obtain outside capital from banks, stock issues or the bond market is similarly affected by these uncertainties.

Despite these almost insurmountable difficulties, real efforts are being made by the industry to become more competitive. For example:

- Many footwear manufacturers and their suppliers have begun "Just in Time" programs, an inventory management program where manufacturers and suppliers arrange to have materials, such as leather, delivered only when it is time to use it, freeing up needed capital and storage space.
- Our "Quick Response" program, which started in the textile and apparel industry, allows us to take advantage of our proximity to

our own market by responding more quickly to retailers' needs. The program is winning new orders, particularly in light of the fact of the long lead time associated with foreign sourcing.

- Computer aided design systems and computer aided manufacturing are revolutionizing the way that shoes are made and helping us compete with third-world manufacturers. The development of a new style can now be done in hours instead of weeks; the transformation of a shoe style on a CRT into an actual sample can be a day instead of weeks; patterns no longer take weeks to be made by outside contractors — you can produce your own instantaneously; grading of patterns (4AA to 10EE) is done instantaneously, not over a period of weeks, in a highly skilled, manually dominated craft format; and there is tremendous ability to change styles and respond to consumer demands because the process now takes hours, not months. The cost savings are substantial by reducing the number of samples which have to be made up, and highly paid pattern graders are replaced by less skilled pattern makers using sophisticated computers. The systems are affordable and are being adopted — complete computer pattern grading and design systems which used to cost $500,000 can now be bought for around $120,000. Of the 66 footwear companies in the world that use CAD, half are in North America.
- Modular manufacturing, receiving wide acclaim in our industry, is dramatically reducing in process time so that we can cut our delivery time at least in half.

In short, the domestic nonrubber footwear industry finds itself in an extremely difficult and unenviable position. Through the aggressive efforts of FIA, the industry now has access to detailed information on how production costs and production time can be reduced through the use of currently-available state-of-the-art technology and machinery. The problem for the industry is that the tremendous import surges of the last five years have increasingly deprived U.S. firms not only of dollar profits that can be reinvested in new technology, but also the confidence that these investments will pay off in increased (or even stable) production levels. Moreover, the same lack of certainty about the prospects for the industry has caused and will continue to cause outside sources of capital to refrain from making substantial loans to the industry. Clearly, the industry will not be able to do what so urgently needs to be done unless and until it obtains a respite from the excessive import levels of recent years.

IV.

S.549 is far from Draconian. It does not roll imports back below the record high 1986 import levels. But it does provide our industry with the certainty as to what imports will be in the future to permit us to plan for the future, albeit with but 20 percent of the domestic market.

In this regard, all of us in the industry have been outraged by the charges made against this bill by retailers and importers. Their greed seems to know no bounds. How much more of our production do they want to send overseas with the jobs of our workers? Will they ever be satisfied until those who remain in this industry have closed the last shoe factory?

Take for example these outrageous allegations from a study commissioned by retailers and importers:

- "The legislation would require a reduction in future nonrubber footwear imports by freezing them at 1986 volumes." Since when does a standstill in import growth become a reduction? The answer lies simply in what importers and retailers have in store for this industry in the future if this legislation is not enacted — further substantial import growth.
- Consumer costs of S.549 have been systematically overstated while the likely benefits to the economy as a whole have been underestimated. The fact is that the likely benefits associated with the footwear provisions of S.549 far outweigh any potential consumer costs.
- The beneficial effect on job creation resulting from S.549 has been understated to make the cost per job relatively high. The fact is that the legislation is likely to increase footwear industry employment by more than twice the 15,600 new jobs estimated by opponents of the legislation. And that does not include the positive indirect employment effects associated with increased footwear production, a fact completely ignored by opponents of S.549.

We urge the Committee to report out S.549 favorably.

The CHAIRMAN. Thank you very much. Our next witness is one of the most effective representatives of the group that she is associated with and is a personal friend of virtually every member of this committee. Ms. Evelyn Dubrow.

STATEMENT OF EVELYN DUBROW, VICE PRESIDENT, INTERNATIONAL LADIES GARMENT WORKERS UNION, AFL-CIO, WASHINGTON, DC

Ms. DUBROW. Thank you very much, Mr. Chairman. In addition to including President Mazur's statement in full, I would also ask on behalf of the Amalgamated Textile and Clothing Workers that the statement of President Jack Shenkman be included in the record.

The CHAIRMAN. Without objection, that will be done.

Ms. DUBROW. Because time is brief, I will try to make just a brief statement on behalf of S. 549. Most members of the panel know that I have been lobbying for it for a long time, and they know most of my arguments.

I am here today in support of S. 549, the Textile and Apparel Trade Act of 1987. The survival of our industry and the jobs of 900,000 garment workers depend on its passage into law.

Unless forceful action is promptly taken, the American apparel industry faces extinction in the very near future. This dire prediction is not ours alone, but it is shared by the Congressional Office of Technology Assessment.

A recently released OPA report on the apparel and textile industries predicts that by the year 2000 there will be no apparel production in the U.S.

As dire as that prediction is, in our judgment it is overly optimistic. We have also made projections on the fate of the domestic apparel industry.

Apparel imports accounted for 52 percent of the domestic consumption in 1986. For women's and children's apparel alone, the import share of the domestic market is approaching 60 percent.

Now, if we project forward the import penetration figure for all apparel using recent trends in imports and consumption, you will understand the urgency of our problem.

Between 1980 and 1986, imports of apparel rose at an annual rate of nearly 15 percent. Let's assume that those apparel imports continue growing at 15 percent a year, and they are likely to do so in the absence of Congressional action, the ILGWU projects that apparel import penetration will reach 59 percent in 1987, 67 percent in 1988, and 77 percent in 1989.

By that time—only three years away—the domestic industry will, for all intents and purposes, have lost its viability. By 1989, the number of production workers in the apparel industry will drop to around 445,000. That represents a decline of nearly 450,000 jobs from today's level.

By 1990, import penetration will reach 87 percent. At best, a shell will remain consisting of firms doing all their production abroad, with little more than sales activity remaining in the United States.

Even if import growth could be held to six percent a year, the growth rate allegedly sought by the Administration, the demise of the domestic apparel industry will merely be delayed a few years.

By 1995, using the six percent annual growth rate, the penetration rate for import apparel would exceed 80 percent, and the domestic industry would then no longer be viable.

The full severity of this wholesale job destruction will be felt throughout our nation. It will affect a whole series of suppliers and consumer industries and the economic survival of countless communities.

Many of our nation's major apparel production centers will disappear, and small communities across the country will lose their already tiny manufacturing base, the chief mainstay of many a local economy.

The lost purchasing power of displaced garment and textile workers and their families will seriously hurt retailers and service providers. Overall economic growth, historically based on increasing consumer expenditures, will be curtailed.

Tax revenue will be seriously impacted. Many individual living standards and our collective living standard as a nation will suffer as a result.

Displaced garment and textile workers constitute our own third world. Over 80 percent of the garment production work force is female. Many of our members are in minority groups.

Many garment workers are recent immigrants with limited education and English language skills.

In short, most garment workers have few opportunities for alternative employment.

The problem we face is not a lack of competitiveness in the design of productivity. Rather, it is extremely low wages and deplorable labor conditions prevailing in the major apparel shipping countries.

Therefore, Mr. Chairman and members of the committee, we urge that S. 549 be passed in this session of the Congress and that the apparel and textile industry get relief as it looks to the Congress of the United States.

[The prepared statement of Mr. Mazur follow:]

STATEMENT
OF
JAY MAZUR, PRESIDENT
INTERNATIONAL LADIES' GARMENT WORKERS' UNION, AFL-CIO
JULY 30, 1987

This statement is submitted on behalf of the International Ladies' Garment Workers' Union, AFL-CIO. Our Union has some 200,000 members employed in the production of women's and children's apparel, accessories and related products. Our members live and work in more than two-thirds of the states spread across our nation.

I am here today in support of S. 549, the Textile and Apparel Trade Act of 1987. The survival of our industry and the jobs of nearly 900,000 garment workers depend on its passage into law. In the course of my testimony I will highlight the flawed policies of our government and the repeated failure of its apparel-textile trade program.

Never in its long history has the future of our industry seemed so bleak. Apparel imports continue to rise relentlessly and represent an ever growing share of our domestic market. Garment plants across our nation are curtailing production or closing down altogether and thousands of workers are losing their jobs. Legislation is the only recourse if a major American industry is ~~to be~~ kept from total elimination.

Unless forceful action is promptly taken by the Congress, the American apparel industry faces extinction in the very near future. This dire prediction is not ours alone, but is shared by the Office of Technology Assessment, an agency of the Congress itself. A recently-released OTA report, The U.S. Textile and Apparel Industry, A Revolution in Progress, predicts that by the year 2000 there will be no domestic apparel production in the United States and that two-thirds of textiles will be imported. As dire as that prediction may seem, in our judgment it is overly optimistic.

The ILGWU has also made projections on the fate of the domestic apparel industry. We estimate that overall imports of apparel accounted for 52 percent of domestic consumption in 1986. Imports of women's and children's apparel is approaching 60 percent of the domestic market. To project that penetration figure forward we used the historical trend in apparel imports and consumption.

Between 1980 and 1986, imports of apparel, including garments made of silk and vegetable fiber, rose at an annual rate of nearly 15 percent. In women's and children's wear, the corresponding growth rate was 15.5 percent per year. For the purposes of our projection we have assumed a continuing growth rate in apparel imports of 15 percent per year.

The long term growth in apparel consumption (measured in quantity) has ranged around one percent per year. We used one percent as the basis for our projections.

If these trends continue, and they are likely to do so in the absence of Congressional action, the ILGWU projects that apparel import penetration will reach 59 percent in 1987, 67 percent in 1988, and 77 percent in 1989. By that time -- only three years away -- the domestic industry will, for all intents and purposes, have lost its viability. By 1990, import penetration will reach 87 percent. At best, a shell will remain consisting of firms doing all their production abroad with little more than sales activity remaining in the United States.

The major impact of the scenario I have just outlined will be felt by the U. S. garment workers. By 1989, the number of production workers in the apparel industry will drop to 445,000, a decline of nearly 450,000 workers from current levels.

By 1990, the number of production workers in the apparel industry will drop 73 percent from 1986 levels. Fewer than 245,000 workers will be involved in apparel production. In women's and children's wear, the number of production workers will be 130,000 or less.

Even if import growth could be held to 6 percent a year, the growth rate allegedly sought by the U.S. government, the demise of the domestic apparel industry will merely be delayed for a few years. By 1995, the penetration rate for imported apparel will exceed 80 percent and the domestic industry will no longer be viable.

The full severity of the projected cutbacks will be felt throughout our nation. It will affect a whole series of other industries and the financial viability of many communities.

Many of the major apparel production centers in the nation will disappear. Small communities across the nation will lose their already tiny manufacturing base, the chief mainstay of many a local economy. Support activities will be curtailed in large and small communities alike. Purchases of domestically produced fabric and supplies will shrink. The lost purchasing power of displaced garment and textile workers and their families will seriously hurt retailers and service providers in the affected areas. Economic growth, historically based on increasing consumer expenditures, will be curtailed. Tax revenue will be seriously impacted.

The displaced garment and textile workers will constitute our own "third world". In fact, they already do. Approximately 80 percent of the garment industry work force is female and is older, on the average, than that of other industries. Many garment workers are recent immigrants with little command of the English language. Many have minimal education. Many are members of minority groups. Most have few opportunities for alternative employment, whether in urban centers or in small, rural communities where little industry can be found.

So far I have primarily addressed myself to the future of our industry, which already has less than half of our own American market. I would now like to deal with some other questions -- how did our nation arrive at this critical juncture and what can be done to remove the death sentence that has been placed on our industry.

The American garment industry and its workers are caught between two fires. On one side, importers and retailers seek ever increasing imports in the pursuit of profit with no regard for the damage done to the U.S. industry and its work force. On the other side, our uncaring government not only stands by and fails to act to prevent the disruption of our markets but actively works to destroy American jobs and job opportunities. We believe that American workers have a right to expect their government to be on their side.

Time and again, the ILGWU has spoken out against the failure of U.S. government policy and action. Year after year our opponents in and out of government told us how well we were doing, how some new government action was finally going to help us. Each time we warned that the proposed actions were too little and too late. Each time history proved we were right.

Our industry is often said to be over protected. There is, of course, a considerable body of law and international executive agreements that could permit the United States to take appropriate action to truly regulate apparel and textile imports. Since 1973 the United States government has been a signatory of the Multifiber Arrangement (MFA) and bilateral agreements under the MFA have been negotiated with the major apparel exporting nations. However, in all the years since 1973 the United States government has failed to act as it could have to prevent our domestic industries from being dismantled by foreign production.

Other nations -- the European Community, for example -- have worked within the confines of the MFA to severely limit imports and to maintain reasonable levels of domestic production in their apparel and textile industries. But our government has not seen fit to do so.

When MFA I was negotiated in 1973, the import share of the domestic apparel market was 21 percent. Today, after 13 years of MFA, the import share is 52 percent and climbing rapidly.

Between 1980 and 1986, imports of apparel made of cotton, wool and man-made fibers increased 101 percent (measured in square yards equivalent). And, if account is taken of the huge rise in garments made of fibers not subject to any controls until August 1986, such as silk, ramie and linen, the rise in apparel imports since 1980 is over 119 percent.

Had domestic consumption grown proportionately, the problem we face would be of considerably lesser magnitude. Unfortunately, this has not been the case. Apparel consumption in the United States has grown historically at about one percent per year, only a fraction of the pace of imports.

Often used along with the charge that our industry is over protected is the equally false contention that our industry is in a boom. What a cruel hoax it is to describe an industry that is rapidly being decimated and reduced to but a shell of its former self as being in a boom.

The flood of imports has taken a severe toll on job opportunities in our industry. In 1973, when MFA I was first negotiated, over 660,000 production workers were employed in the manufacture of women's and children's wear in our country. In 1980, the number of jobs was down to 577,000. By 1986, only 494,000 such jobs remained on employer payrolls, a decline of 25 percent under the supposedly protective aegis of the MFA.

The employment decline in our industry is all the more shocking in the light of the 14 percent increase in population that has taken place in the United States since 1973. Relative to population, employment in women's and children's wear has lost ground by over 42 percent since the MFA I was negotiated.

The only boom in apparel is among importers and retailers. Some apparel firms are erroneously thought of as domestic apparel manufacturers even though they import most, if not all, of the merchandise they sell.

The pervasive destructive impact of apparel imports has hit many parts of our nation. Even the sunbelt, which some years ago had been showing growth, has been hard hit in recent years. Of the 25 top apparel producing states in the nation, only two -- California and North Carolina -- show increases in employment between 1980 and 1986. In the other 23 apparel states, job losses ranged from 0.4 percent to 31 percent. (Michigan has a sizeable employment in Standard Industrial Classification 23, Apparel and Related Products, but is excluded from the tabulation since most of the employees are engaged in production of automotive upholstery and trimmings. Its apparel employment alone is too small to place it in the top 25.)

ALL EMPLOYEES, APPAREL INDUSTRY, 25 LEADING STATES, 1980-1986
(arranged by percentage of decline)

State	Employment(000's)		Percent Change
	1980	1986	
Illinois	22.6	15.6	-31.0%
Massachusetts	39.8	27.7	-30.4%
Texas	74.8	52.6	-29.7%
Maryland	15.3	10.8	-29.4%
Louisiana	11.0	7.8	-29.1%
New York	169.3	126.8	-25.1%
Pennsylvania	124.1	93.3	-24.8%
Connecticut	10.8	8.5	-21.3%
Arkansas	13.4	10.7	-20.1%
New Jersey	55.7	45.1	-19.0%
Missouri	29.9	24.5	-18.1%
Oklahoma	11.1	9.5	-14.4%
Indiana	10.9	9.5	-12.8%
Virginia	34.3	30.2	-12.0%
Mississippi	40.9	36.8	-10.0%
Tennessee	69.4	64.6	- 6.9%
Florida	34.1	32.1	- 5.9%
Georgia	72.3	69.8	- 3.5%
South Carolina	46.4	45.0	- 3.0%
Ohio	17.1	16.6	- 2.9%
Kentucky	27.4	27.0	- 1.5%
Wisconsin	6.5	6.4	- 1.5%
Alabama	53.9	53.7	- 0.4%
North Carolina	88.0	88.9	+ 1.0%
California	106.5	113.2	+ 6.3%

Source: State Labor Department reports.

The approach of successive administrations, particularly the present one, to regulation of apparel and textile imports has clearly failed. Among the elements that must be dealt with are the diversification of production in the major exporting countries, the proliferation of foreign supply sources and the speed with which foreign shipments can be increased. The piecemeal administrative approach to regulating imports amounts to a never-ending, ultimately futile process of catch-up.

Indeed, considering that there are more than 150 fiber specific MFA product categories and that more than 150 countries ship apparel and textile products to the United States, there is a vast universe of possible quotas.

All too often quotas were not introduced until imports rose to extremely high levels. In all too many instances the Administration has moved very slowly. And when finally negotiated by our government, import ceilings have been excessively generous and were permitted to increase further, usually by considerably more than the six percent a year cited in MFA I.

Even where quota growth is kept under six percent, unusually generous initial restraint levels are permitted. This provides for very high base levels from which to subsequently expand by what is claimed to be "reasonable" growth rates.

The fundamental problem is that in implementing the MFA the government's focus seems to be on limiting marginal quota growth rather than in restraining the volume of import shipments by setting quotas at reasonable levels in the first place. Regulating imports is transformed into a charade if the effective import growth is far above growth limits compatible with the avoidance of market disruption.

Furthermore, our government's policy is to treat each country as a separate entity, ignoring the additive affects on total imports. Small increases can clearly add up to very large gains, particularly with so many countries exporting apparel to the United States.

It is contended by the Administration that a large percentage of all imports from low-cost suppliers is covered by quota. The critical fact, however, is that the present import penetration level is dangerously high. Even with a quota in existence, substantial import growth is still possible since quota levels often are greater than current shipping levels. Quota ceilings also continue to increase even where shipments fall well below the restraint levels.

The bilateral agreements also contain provisions that allow quota levels to be exceeded, provided that a reduction in square-yards-equivalent (SYE) is made in one or more other categories. Quota may also be borrowed from future years, and unused quota carried forward. These provisions heighten the potential for sudden large import surges, a critical element in disruption of our domestic market.

Going beyond the agreements themselves is the problem of excessive imports coming as a result of evasion, transshipment, and fraud. Cutbacks in the nation's customs staff and ability to inspect only a tiny portion of incoming shipments have opened the door to wholesale violation of the already weak agreements our government has negotiated.

The available data make it evident that major damage has been done to the domestic industry and its workers by errors of commission and omission in the negotiation of bilateral agreements, calls and enforcement.

The original MFA recognized a six percent a year growth rate in bilateral agreements. Subsequent renewals accepted the need for lower growth rates for sensitive items. However, despite the ability to control import growth at rates much closer to domestic consumption than six percent a year, apparel imports have not only exceeded the six percent mark but have been rising dramatically.

INCREASES IN APPAREL IMPORTS, 1980 - 1986 (SQUARE YARDS)
(cotton, wool and man-made fiber only)

1980 - 1981	+ 8.7 %
1981 - 1982	+ 7.9 %
1982 - 1983	+ 14.6 %
1983 - 1984	+ 21.7 %
1984 - 1985	+ 8.5 %
1985 - 1986	+ 13.3 %
1986 - 1987 (5 months)	+ 12.5 %

Comparable data on imports of garments made of silk, linen or ramie are not fully available. However, even the partial data indicate that garments made of these fibers, previously uncontrolled, grew astronomically. Were the data included along with those for the three previously covered fibers, the recent growth rates would be significantly higher than shown above.

Growth rates for apparel imports from individual countries have been more outrageous than even the world totals suggest. Major shippers continue to dominate the market while newer entrants have shown spectacular growth. For example, consider the following apparel import growth rates between 1980 and 1986: Taiwan 50 percent, Hong Kong 37 percent, South Korea 41 percent, China 323 percent, Indonesia 2967 percent, Singapore 155 percent, India 78 percent, Malaysia 572 percent, Sri Lanka 220 percent, Pakistan 345 percent and Thailand 138 percent.

In 1986, when our government claims so much restrictive activity took place, individual country shipments continued to soar. To cite a few examples, shipments from China rose 67 percent, Turkey 51 percent, Indonesia 46 percent and the Dominican Republic 31 percent .

So far in 1987, imports are continuing to soar. For the first five months of the year, imports of cotton, wool and man-made fiber apparel are up 12.5 percent over the same months of 1986. Imports from China, now the largest exporter to the U. S., are up 52 percent in the first four months of 1987.

While apparel imports have been soaring relentlessly over the years, domestic output has been falling. The ILGWU Research Department compiles a series on physical volume of output of women's and children's garments based on U.S. Department Commerce production data. Between 1980 and 1986, physical output (measured in 1967 dollars) declined from $9,288 million to $7,700 million, a drop of 18 percent. This was a period during which imports were more than doubling.

Import penetration has reached utterly unacceptable levels in numerous major items of women's apparel. Imports account for approximately two-thirds of domestic consumption of sweaters, cotton coats and many types of blouses and knit shirts. Many other product areas are also marked by extraordinarily high import penetration, including brassieres, rainwear and cotton slacks and skirts.

In such other product lines as dresses, playsuits and man-made fiber nightwear and underwear, where imports have traditionally played a less significant role, astronomical import surges of 40 to 50 percent or more annually have been experienced in the last two years. In short, the entire spectrum of women's apparel has been seriously undermined by an unrelenting wave of imported goods.

The Textile and Apparel Trade Enforcement Act was introduced in the last session of the Congress in an effort to restore order to the U.S. apparel and textile trade and to prevent further harm to the domestic industry. Some who opposed that legislation may have done so in the belief that legislative action was no longer needed -- that a renewed MFA and a sagging dollar were remedy enough. How wrong they were!

The MFA renewal in 1986 was but one more illustration of the unwillingness of the United State Government to take decisive action to help our industry. Other than a partial coverage of previously uncovered fibers, MFA was left in an unchanged or even weaker condition than before. And our government showed no signs that it would change its policy and use its existing authority to adequately control apparel imports.

A significant reduction in the value of the dollar has taken place relative to the currencies of Japan and the European Common Market. These countries, however, are not the key apparel shippers to the United States. Japan accounts for less than 2 percent and the entire Common Market group for barely 3 percent of our imports of clothing. In contrast, the dollar has risen in value or remained at the same level as against the currencies of the key nations that export apparel to the United States, whether in the Far East or the Caribbean.

Only legislation can mandate that our government act in defense of the clothing and textile industries and their workers. If comprehensive trade legislation could be effective in industries such as ours, there would be no need to seek industry-specific legislation. Unfortunately, the remedies offered by the generic trade bill have very limited application to such labor-intensive industries as our own.

There is little need for countries to sell clothing in the United States at less than cost. The terribly low wage rates paid in most of the clothing exporting nations permit the undercutting of U.S. costs even without benefit of subsidy. Hence, the barring of such unfair trade practices does little to level the playing field for apparel trade.

Similarly, foreign barriers to U.S. exports have little significance to the welfare of the domestic apparel industry. The overwhelming share of our exports consists of cut garment parts leaving the country for sewing abroad under Item 807.00 of the Tariff Schedules.

The problem we face is not a lack of competitiveness in design or productivity but an inability to compete with the abysmally low wages and sweatshop labor conditions in countries that are the major shippers of apparel to the United States.

Provisions dealing with labor conditions and practices in foreign countries are sound in theory, but unfortunately are slow acting remedies. Given the timetable for the destruction of our industry, far speedier remedies are essential.

Lastly, there are relatively few jobs apparel workers can be retrained for. Most labor-intensive jobs for which garment workers could be retrained have similarly been destroyed or are in the process of destruction by foreign sourcing.

No matter how effective comprehensive legislation may be in dealing with the international trade problems of other industries, it cannot solve our problem. We need industry-specific legislation.

The Textile and Apparel Trade Act of 1987 was introduced in an effort to provide a minimally acceptable solution to our industries' problems. In drafting the new bill's provisions, its supporters have taken into account some of the objections raised to last year's legislation .

The new legislation now covers all countries. Exclusions in the prior bill had led to charges of bias against non-white countries. The charge was groundless, but the new bill removes any doubt about intent.

The 1987 bill provides for a one percent growth in imports each year in each textile and apparel category, commensurate with the historic growth in domestic consumption. The base for each category is the level of 1986 shipments. There are no cutbacks, even for the largest shippers.

The President can allocate to each exporting nation from a global quota as he sees appropriate, taking into account the needs of the United States and the individual countries.

Lastly, the bill provides for a 10 percent reduction in duty over a five year period to compensate the exporting nations for the imposition of the quotas.

These provisions are fully in accord with the provisions of the MFA and the GATT.

In effect, S. 549 is considerably less drastic than what the European Community did in 1982. It negotiated with its trading partners on a global basis, but limited import growth to 0.5 percent No one has alleged incompatibility with GATT, nor was there any retaliation. The EC shifted Far EAstern imports from itself to the United States. As the Congressional Budget Office stated in a June 1987 report entitled The GATT Negotiations and U.S. Trade Policy:

> A similar pattern may be at work with textiles and apparel. Despite the framework of the multilateral

> agreements, quotas are negotiated bilaterally. Some maintain that the runup of textile and apparel exports to the United States during the 1980's stemmed from the more restrictive quotas the EC negotiated in the 1980's. While the value of U.S. apparel imports from developing countries increased by more than 90 percent between 1980 and 1984, Europe's imports from these countries (measured in dollars) declined by 13 percent. Similarly, U.S. imports of textiles from developing countries increased by 70 percent while European imports declined by 20 percent. As a result, the U.S. textile and apparel trade deficit with developing countries swelled, while the EC's declined. Also important, of course, were the strength of the dollar and the more rapid growth of the U.S. economy during this period. (pp. 106-107)

Low-cost imports threaten our living standards, particularly those of low income groups, by destroying badly needed employment opportunities for the U.S. apparel workforce.

Sixty percent of apparel imports now originate from just four sources: Hong Kong with an applicable wage rate of $1.62 per hour; Taiwan at $1.39; South Korea, $0.86; and China, where a garment worker earns the U.S. equivalent of $0.16 per hour. Wages are similarly low in such other Asian countries as Indonesia, Malaysia, Sri Lanka, Thailand and the Philippines, all of which continue to boost garment shipments to the U.S.

Despite the grand assumptions of theoretical economists, the use of low-wage labor abroad in garment production does not translate into lower prices paid by consumers. Retailers acknowledge they prefer to sell imported garments because of the higher markup taken on imports than on domestically produced goods. To cite just one of numerous examples: when asked by Women's Wear Daily whether retailers are really buying markups when they purchase imports, Allied Stores president Thomas M. Macioce responded, "Sure, we are indeed buying better markup, but that's our job. We would be delighted to buy only American-made goods if we could make the same type of markup".

Invariably, imported garments retail for the same price, and some times at an even higher price, than U.S.-produced items of precisely the same design and style, with the difference padding someone's profits.

While the garment industry shares many problems with other industries, its simple technology, small capital requirements and dependence on relatively low-skilled labor make it particularly vulnerable to imports from low-wage countries. Recognition of this acute vulnerability to low-cost imports was an important justification for the special treatment that MFA accorded to the apparel and textile industries under the auspices of the General Agreement on Tariffs and Trade.

We must address the severe apparel and textile import situation before it is too late. The domestic apparel industry is unique and requires unique solutions to its trade problems. General approaches are not equal to the task.

Unlike so many others, our industry employs large numbers of women, minorities, immigrants and so many others for whom few alternative employment opportunities exist. The work force in our industry includes many individuals with limited education and English language skills. These workers have very little opportunity for geographic mobility or retraining.

In many senses -- for example, the predominance of women, ethnic origins, and low skill levels -- U.S. garment workers are similar to their counterparts in third world exporting countries. As a diverse society we have a collective responsibility to ensure that our economy provides a full range of job opportunities.

The only way in which we might "compete" with exporting nations is to drop our wage levels to that of such nations. If this would happen -- and I don't believe it will -- we will no longer have the American living standard for which workers have fought for centuries.

Massive increases in apparel imports have made obsolete the government's approach to implementing MFA -- if it ever truly reflected domestic needs. We urge you to give careful consideration to the Textile and Apparel Trade Act of 1987 in the interest of developing a more rational and reasonable approach to our trade in textiles and apparel. But we also ask that you act promptly and forcefully. Only your action can insure that our industry will remain a viable part of the American economy.

Senator DASCHLE. Thank you, Ms. Dubrow. Our next witness is Mr. Aven Whittington.

STATEMENT OF AVEN WHITTINGTON, PRESIDENT, NATIONAL COTTON COUNCIL OF AMERICA, GREENWOOD, MS

Mr. WHITTINGTON. Thank you, Mr. Chairman. My name is Aven Whittington, and I am a cotton farmer from Greenwood, Mississippi. I serve at the present time as President of the National Cotton Council of America, which is the central organization of the American cotton industry, representing cotton producers, cotton ginners, warehousemen, merchants, cooperatives, cotton seed crushers, and textile manufacturers from the Carolinas to California.

Cotton and textile/apparel imports over the past six years have had an enormous impact on the U.S. cotton industry. They have more than doubled since 1980 and now account for 39 percent of the cotton consumed by the U.S. population and over half of the apparel consumption.

American consumers are buying more cotton textile products than they have for the past 20 years. Since 1980, their cotton consumption has grown by 3.4 million bales, a very strong growth, but imports of cotton and textile products have taken two-thirds of that growth.

Equally alarming is the fact that 80 percent of the cotton in textile imports is not U.S. grown, but is foreign grown cotton, and the proportion of U.S. grown cotton has declined over the past several years.

The expanding consumer market for cotton in this country has not just happened. U.S. cotton growers for nearly 20 years have been assessing themselves to build that market.

It is ironic that most of the benefits of the market growth created and paid for by U.S. cotton farmers has not accrued to them but their competitors, the foreign producers of cotton.

Moreover, those same imports have taken dollars out of U.S. farmers' pockets. Even while cotton textile imports increased 133 percent, the price of cotton in this country fell by more than a third; and this drop, combined with the lost markets, has resulted in billions of dollars in losses for U.S. cotton producers since 1980.

I will skip some of the details because you have heard the statistics from other people; but these statistics do mean that hundreds of thousands of jobs have been affected in the cotton industry, an industry that supplies goods and services to the fiber, textile, and apparel industries.

The People's Republic of China, which is the world's largest cotton producer, has been bent on using textile imports as its main source of foreign exchange earnings; and they have recently become the single largest source of textile imports into the United States.

In the last year alone, China's textile imports to the U.S. have shot up 65 percent. We can only guess how much more China sent us through other countries; but we do know that when we tightened our country-of-origin rules, China was quite vocal and quite vehement in its objections.

Textile and apparel imports pose an extremely serious problem for the cotton industry as well as for related industries and for our national economy.

The National Cotton Council strongly endorses the Textile and Apparel Trade Act of 1987 and solicits your support for this legislation, which will help to provide a reasonable and an equitable solution.

Thank you very much.

[The prepared statement of Mr. Whittington follows:]

Statement of Aven Whittington
for the National Cotton Council

My name is Aven Whittington. I am a cotton farmer from Greenwood, Mississippi and I serve as President of the National Cotton Council.

The Council is the central organization of the American cotton industry, representing cotton producers, ginners, warehousemen, merchants, cooperatives, cottonseed crushers, and textile manufacturers from the Carolinas to California.

The Council strongly endorses the Textile and Apparel Trade Act of 1987 (S 549) and respectfully urges support for it by members of the Senate Finance Committee.

Cotton textile and apparel imports over the past six years have had an enormous impact on the U.S. cotton industry. They have more than doubled since 1980 and now account for 39% of the cotton consumed by the U.S. population and over half of apparel consumption.

American consumers are buying more cotton textile products than they have for the past twenty years. Since 1980 their cotton consumption has grown by 3.4 million bales. But imports of cotton textile products have taken 2/3 of that growth.

Equally alarming is the fact that 80% of the cotton in textile imports is not U.S.-grown, but is foreign-grown cotton. The expanding consumer market for cotton in this country did not just happen; U.S. cotton growers for nearly 20 years have been assessing themselves to build that market. It is ironic that most of the benefits of the market growth created and paid for by U.S. cotton farmers has not accrued to them, but their competitors — the foreign producers of cotton.

Moreover, those same imports have taken dollars out of U.S. farmers' pockets. Even while cotton textile imports increased 133%, the price of cotton in this country fell by more than a third. And this drop — combined with lost markets — has resulted in billions of dollars in losses for U.S. cotton producers since 1980.

In 1960, fewer than four garments were imported for every 100 made in the USA.

But today:

* 68 out of 100 men's cotton sport coats are imported.
* 59 out of 100 children's cotton playsuits are imported, and
* 62 out of 100 women's cotton shirts and blouses are imported.

That means that hundreds of thousands of jobs have been affected in the cotton industry and in industries that supply goods and services to the fiber, textile, and apparel industries.

It has been claimed that if textile import growth is limited, consumer prices will rise. But experience shows this is not the case. In markets like cotton velveteens, where U.S. manufacturers have been completely eliminated by unfair competition, prices of imported products have risen higher than previously quoted.

The reasons for the textile import surge are fairly obvious. Made-up textile products require a lot of labor, and with foreign wages often less than $1 an hour, our country — with its legally-mandated wages and working conditions — finds it almost impossible to compete.

U.S. environmental and workplace regulations add more costs.

And in many cases, our products must compete with exports that are subsidized either directly or indirectly by foreign governments.

To make matters worse, the negotiated import quotas have loopholes, and are often circumvented by falsifying products' country-of-origin and by mislabeling merchandise.

Experience over more than two decades proves that negotiated textile trade agreements are not an adequate solution. It is naive to believe that foreign textile and apparel manufacturers will hold their export growth to the percentage allowed under international and bilateral agreements.

The People's Republic of China, bent on using textile exports as its main source of foreign exchange earnings, has become the single largest source of textile imports into the U.S. In the last year alone, China's textile exports to the U.S. have shot up 65 percent. We can only guess how much more China sent us through other countries. But we do know that when we tightened our country-of-origin rules, China was quite vocal and quite vehement in its objections.

Textile and apparel imports pose an extremely serious problem for the cotton industry as well as for related industries and for our national economy. Accordingly, we solicit your support for the Textile and Apparel Trade Act of 1987 which will help to provide a reasonable and equitable solution.

Senator DASCHLE. Thank you very much, Mr. Whittington.

We will now hear from Mr. Gene Brune, Secretary of the National Wool Growers Association from Fountaintown, Indiana.

We are pleased to have you and invite you to proceed.

STATEMENT OF GENE BRUNE, SECRETARY, NATIONAL WOOL GROWERS ASSOCIATION, FOUNTAINTOWN, IN

Mr. BRUNE. Thank you. Mr. Chairman and members of the committee, as you stated, my name is Gene Brune. I am a lamb and wool producer from Fountaintown, Indiana. I am here today representing the National Wool Growers Association of which I am elected Secretary.

Our association is made up of 34 State and regional sheep associations, and we are the national voice of the nation's 115,000 sheep producers. We are pleased to have the opportunity to appear before you today and to explain the vital importance of S. 549 to our industry.

America's wool producers need stronger, more effective trade legislation. Today, about 66 percent of all the wool fabric and clothing sold in America is foreign-made.

This compares to just 51 percent 10 years ago; but what is most shocking is that the surge of wool imports occurred during a period when the growth of the U.S. textile and apparel market customers grew less than one percent a year.

What this means, of course, is that imports are capturing almost all of the growth of the American textile and apparel market; and they are fast devouring the share of the market we already have.

If this trend continues, it won't be very long until we have no wool textile and apparel industry in America.

This is obviously a trend that is unacceptable. As business men and women, America's wool producers are well aware of the risk and potential gains of our economic system.

We have competed amongst ourselves for decades and don't expect any guarantee of success.

I am here today on behalf of America's wool producers to urge your support of S. 549 because, without it, we only have the guarantee of failure in our own country. Let me explain why.

Wool producers in the U.S. include both the small sheep rancher and the large wool businesses. For the most part, we operate independent of heavy Government involvement, and we are not part of the Federal Government strategy to dominate the wool markets of foreign countries.

But our competitors are playing a little bit different game. Take China, for example. In 1972, China didn't even export textile products to the U.S. Last year, China became the world's largest exporter.

China has now focused its export strategy on the U.S. wool market. Since 1983, China has increased by fivefold its purchases of Australian wool—Australian wool, not U.S. wool.

From October 1986 through February 1987, China has also accounted for 39 percent of Argentina's total shipments of wool fiber. The Chinese have been investing heavily in equipment used for wool and worsted fabric manufacturing.

The obvious conclusion from this massive buildup of raw wool and machinery is that the U.S. wool market is the bull's eye of China's trade strategy to target the U.S. market.

Our is the most open in the world and the easiest to flood.

There are other examples, but suffice it to say that in 1980 only 16 countries shipped wool and textile products to the U.S. Just six years later, 41 countries are shipping us their wool.

There has been a lot of talk within Congress and across the nation about the need for so-called "tough trade legislation." However, the current Omnibus legislation does not help the wool textile industry.

It is for this reason we are supporting S. 549 which does address the special problems of the wool-growing industry.

Let me also add that there has been some talk among some people in the farm community that this legislation may result in some retaliation. However, a study by one of the nation's most respected economic agricultural research firms found that this is very unlikely that our bill would cause international actions against U.S. agricultural interests.

But my major argument here today is that S. 549 isn't just a tough trade bill; it is a smart trade bill. Clearly, our efforts to knock down foreign doors by keeping ours wide open hasn't been working. We have seen the devastation of the textile, apparel, and especially footwear industries.

I think it is time we recognized the fact that foreign trade among nations is a high-stakes endeavor, with literally millions of jobs and billions of dollars at stake.

Our competitors aren't out to win points by playing fair. They are out to win.

Congress can give American's wool producers a chance to win, too. S. 549 is reasonable and fair legislation. It will help us a great deal. I urge that you support it.

Thank you for your attention.

Senator **Daschle**. Thank you very much, Mr. Brune.

[The prepared statement of Mr. Brune follows:]

TESTIMONY OF GENE BRUNE

SECRETARY, NATIONAL WOOL GROWERS ASSOCIATION

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS GENE BRUNE. I AM A LAMB AND WOOL PRODUCER FROM FOUNTAINTOWN, INDIANA. I AM HERE TODAY TO REPRESENT THE NATIONAL WOOL GROWERS ASSOCIATION, OF WHICH I AM SECRETARY. OUR ASSOCIATION IS MADE UP OF 34 STATE AND REGIONAL SHEEP ASSOCIATIONS, AND WE ARE THE NATIONAL VOICE OF THE NATION'S 115,000 SHEEP PRODUCERS. WE ARE PLEASED TO HAVE THE OPPORTUNITY TO APPEAR BEFORE YOUR COMMITTEE TODAY; AND TO EXPLAIN THE VITAL IMPORTANCE OF S. 549 TO OUR INDUSTRY.

AMERICA'S WOOL PRODUCERS NEED STRONGER, MORE EFFECTIVE TRADE LEGISLATION. TODAY, ABOUT 66 PERCENT OF THE WOOL FABRIC AND CLOTHING SOLD IN AMERICA IS FOREIGN MADE. THIS COMPARES TO 51 PERCENT JUST 10 YEARS AGO. BUT WHAT IS MOST SHOCKING IS THAT THIS SURGE OF WOOL IMPORTS OCCURRED DURING A PERIOD WHEN THE GROWTH OF THE U.S. TEXTILE AND APPAREL MARKET -- OUR CUSTOMERS -- GREW LESS THAN ONE PERCENT A YEAR.

WHAT THIS MEANS, OF COURSE, IS THAT IMPORTS ARE CAPTURING ALMOST ALL OF THE GROWTH OF THE AMERICAN TEXTILE AND APPAREL MARKET. AND THEY ARE FAST DEVOURING THE SHARE OF THE MARKET WE ALREADY HAVE. IF THIS TREND CONTINUES, IT WON'T BE VERY LONG

UNTIL WE HAVE NO WOOL, TEXTILE AND APPAREL INDUSTRY IN AMERICA. THIS OBVIOUSLY IS A TREND THAT IS UNACCEPTABLE.

AS BUSINESSMEN AND WOMEN, AMERICA'S WOOL PRODUCERS ARE WELL AWARE OF THE RISKS -- AND THE POTENTIAL GAINS -- OF OUR ECONOMIC SYSTEM. WE'VE COMPETED AMONG OURSELVES FOR DECADES. WE DON'T EXPECT ANY GUARANTEE OF SUCCESS.

I AM HERE TODAY ON BEHALF OF AMERICA'S WOOL PRODUCERS TO URGE YOUR SUPPORT OF S. 549 BECAUSE, WITHOUT IT, WE HAVE ONLY THE GUARANTEE OF FAILURE IN OUR OWN COUNTRY.

LET ME EXPLAIN WHY. WOOL PRODUCERS IN THE U.S. INCLUDE BOTH THE SMALL SHEEP RANCHER AND THE LARGE WOOL BUSINESSES. FOR THE MOST PART, WE OPERATE INDEPENDENT OF HEAVY GOVERNMENT INVOLVEMENT; AND WE ARE CERTAINLY NOT PART OF A FEDERAL GOVERNMENT STRATEGY TO DOMINATE THE WOOL MARKETS OF FOREIGN COUNTRIES.

BUT OUR COMPETITORS ARE PLAYING A DIFFERENT GAME. TAKE CHINA, FOR EXAMPLE. IN 1972, CHINA DIDN'T EVEN EXPORT TEXTILE PRODUCTS TO THE U.S. LAST YEAR, CHINA BECAME THE WORLD'S LARGEST EXPORTER OF TEXTILES AND APPAREL TO THE U.S. CHINA HAS NOW FOCUSED ITS EXPORT STRATEGY ON THE U.S. WOOL MARKET.

SINCE 1983, CHINA HAS INCREASED BY FIVE-FOLD ITS PURCHASES OF AUSTRALIAN WOOL. FROM OCTOBER 1986 THROUGH FEBRUARY 1987, CHINA HAS ALSO ACCOUNTED FOR 39 PERCENT OF ARGENTINA'S TOTAL

SHIPMENTS OF WOOL FIBER. THE CHINESE HAVE ALSO BEEN INVESTING HEAVILY IN THE EQUIPMENT USED FOR WOOLEN AND WORSTED FABRIC MANUFACTURING.

THE OBVIOUS CONCLUSION FROM THIS MASSIVE BUILDUP OF RAW WOOL AND MACHINERY IS THAT THE U.S. WOOL MARKET IS THE BULL'S EYE OF CHINA'S TRADE STRATEGY TO TARGET THE U.S. MARKET. OURS IS THE MOST OPEN IN THE WORLD, AND THE EASIEST TO FLOOD.

THERE ARE OTHER EXAMPLES. BUT SUFFICE IT TO SAY THAT IN 1980, ONLY 16 COUNTRIES SHIPPED WOOL TEXTILE PRODUCTS TO THE U.S. JUST SIX YEARS LATER, 41 COUNTRIES WERE SHIPPING US THEIR WOOL.

THERE'S BEEN A LOT OF TALK WITHIN CONGRESS AND ACROSS THE NATION ABOUT THE NEED FOR SO-CALLED "TOUGH TRADE LEGISLATION." HOWEVER, THE CURRENT OMNIBUS LEGISLATION DOES NOT HELP THE WOOL-TEXTILE INDUSTRY. IT IS FOR THIS REASON WE ARE SUPPORTING S. 549 WHICH DOES ADDRESS THE SPECIAL PROBLEMS OF THE WOOL GROWING INDUSTRY.

LET ME ALSO ADD THAT THERE HAS BEEN SOME TALK AMONG SOME PEOPLE IN THE FARM COMMUNITY THAT THIS LEGISLATION MAY RESULT IN SOME RETALIATION. HOWEVER, A STUDY BY ONE OF THE NATION'S MOST RESPECTED ECONOMIC AGRICULTURAL RESEARCH FIRMS FOUND THAT IT IS "VERY UNLIKELY" THAT OUR BILL WOULD CAUSE INTERNATIONAL ACTIONS AGAINST U.S. AGRICULTURAL INTERESTS. BESIDES, THE

COMPENSATION PROVISION OF S. 549 ALLOWING FOR TARIFF REDUCTION ON IMPORTED TEXTILES DOES EFFECTIVELY ADDRESS THE QUESTION OF RETALIATION.

BUT MY MAJOR ARGUMENT HERE TODAY IS THAT S. 549 ISN'T JUST A "TOUGH" TRADE BILL -- IT'S A SMART TRADE BILL. CLEARLY OUR EFFORTS TO KNOCK DOWN FOREIGN TRADE DOORS BY KEEPING OURS WIDE OPEN DOESN'T WORK. WE'VE SEEN THE DEVASTATION IN THE TEXTILE, APPAREL AND ESPECIALLY FOOTWEAR INDUSTRIES.

IT'S TIME WE WISED UP TO THE FACT THAT FOREIGN TRADE AMONG NATIONS IS A HIGH STAKES ENDEAVOR, WITH LITERALY MILLIONS OF JOBS AND BILLIONS OF DOLLARS AT STAKE. OUR COMPETITORS AREN'T OUT TO WIN POINTS BY PLAYING FAIR. THEY'RE OUT TO WIN.

CONGRESS CAN GIVE AMERICA'S WOOL PRODUCERS A CHANCE TO WIN, TOO. S. 549 IS REASONABLE AND FAIR LEGISLATION. IT WILL HELP US A GREAT DEAL. I URGE THAT YOU SUPPORT IT. THANK YOU FOR YOUR ATTENTION TODAY AND THE OPPORTUNITY TO SHARE MY VIEWS.

Senator DASCHLE. In order of arrival, Senators Packwood, Chafee, Heinz, and Moynihan will be recognized. Senator Packwood?

Senator PACKWOOD. Mr. Roboz, what is the measurement of production in the textile industry? Is it square yards or the value of production or what?

Mr. ROBOZ. The measurement is square yards. In some cases, it is pounds. When you refer to the textile industry, do you mean makers of fabric?

Senator PACKWOOD. Yes. I don't mean apparel.

Mr. ROBOZ. I am an apparel manufacturer, and for us it is dozens.

Senator PACKWOOD. I understand, however, you are representing a textile coalition?

Mr. ROBOZ. Yes, sir.

Senator PACKWOOD. Textiles.

Mr. ROBOZ. If your questions become technical, I may need assistance.

Senator PACKWOOD. That will be fine. I am just curious as to what the measure is.

Mr. ROBOZ. Square yards.

Senator PACKWOOD. All right. Square yards.

Mr. ROBOZ. We buy textiles by the yard.

Senator PACKWOOD. All right; that is fine. I just want to make sure we are talking the same language.

I am looking at a variety of production figures. One is from the Department of Commerce, another from the Federal Reserve Board; but they all seem to conclude that production has been very high recently. Is that true?

Mr. ROBOZ. That is true, but you have to remember that, thanks to our failed policies, there are a lot fewer people making things.

Senator PACKWOOD. Say that again.

Mr. ROBOZ. A lot fewer people are making things, both textiles and apparel. I heard statistics before that our plants are up to 81 percent of capacity. That is true, but I think 20 percent of the total capacity has been eliminated in the last five years.

Senator PACKWOOD. All right. I want to talk about textiles, and I want to talk about production. That is the value of the goods turned out or the yards of goods turned out. Has the quantity of production in textiles in the last 12 months been extraordinarily good—high—call it what you want?

Mr. ROBOZ. I cannot take your adjective "extraordinarily" but it has been high. Yes.

Senator PACKWOOD. Is the figure that the production in April of 1987 was the highest in history accurate?

Mr. ROBOZ. I am a poor witness to that, sir. As I repeat, I am an apparel manufacturer, and I am not glib with the statistics of the textile industry.

Senator PACKWOOD. All right. Call on somebody if you can. I am reading here from Department of Commerce figures. These are in value rather than yardage, but it would appear that in 1986, based upon value in constant dollars, you had what appears to be your third or fourth best year in history. It is very close to your best year, in 1986.

Mr. ROBOZ. I have just been handed "Textile Highlights" from the ATMI that discusses shipments in millions of dollars, in their case, and it has really been running—What month did you pick, sir?

Senator PACKWOOD. What I was just reading from now was 1986. In terms of constant production, your value of textiles produced $49,210,000,000, in constant 1982 dollars. It is $51,917,000,000 in current dollars. I just want to make sure we are on the same wavelength in terms of facts.

Mr. ROBOZ. We probably are except that the statistics that I happen to be looking at is that it has been relatively constant over a 12-month period.

Senator PACKWOOD. All right. We are in the same ball park roughly.

Mr. ROBOZ. Yes.

Senator PACKWOOD. Now, next, in terms of import penetration on textiles—not apparel, textiles—what percent of the domestic market is import in textiles?

Mr. ROBOZ. You know, you can't just take textiles; and I don't have that number. Our position is that it is textiles and apparel, and the two of them because both of them constitute textiles; they are over 50 percent, the import penetration.

Senator PACKWOOD. All right.

Mr. ROBOZ. You know, when a pair of pants comes in, it contains X yards of textiles.

Senator PACKWOOD. All right. Again, I want to try to get these facts right. This is from the Department of Commerce "U.S. Industrial Outlook, 1987." And they break it down between textiles and apparel.

Textile production, 1986, $51,917,000,000. Imports, $4.3 billion. Does that sound about right? Percentage, 7.9.

Mr. ROBOZ. I should have brought an economist with me, Senator. I apologize. I am a businessman.

We have seemingly different data from you, sir; and I ran into this with Sam Gibbons also. I think it is best if you permit me to supply you our data so that it can become comparable. I don't have in front of me what you have, and the figures that I am being handed by the ATMI are different.

Senator PACKWOOD. All right. Let me ask you this. We agree that production has been high the last 12 months?

Mr. ROBOZ. Yes, sir.

Senator PACKWOOD. Good production. My figures are that it was as high as it has ever been in April of 1987. And I want to compare it to the timber industry.

Could I have an extra minute to finish, Mr. Chairman?

The CHAIRMAN. Surely.

Senator PACKWOOD. The timber industry I do know well. 1986 was the best year of total production in the softwood timber industry in the northwest since 1978.

And yet, in terms of employment, our high in 1978 was close to 100,000; last year it was about 63,000. So, there was a tremendous increase in productivity, and I sense that was the same situation in the textile industry.

You were down in employment, but your production has been very consistently high.

Mr. ROBOZ. Sir, I do not doubt that there has been an increase in productivity in the textile industry. I would just like to say to you that I don't think it is tremendous, and that the industry have eliminated a great deal of capacity also.

Senator PACKWOOD. Gosh, in your testimony, you talk about this tremendous increase in productivity.

Mr. ROBOZ. Yes.

Senator PACKWOOD. I mean, it has been tremendous.

Mr. ROBOZ. Yes.

Senator PACKWOOD. Twice the rate of average manufacture.

Mr. ROBOZ. Over a period of a decade, yes.

Senator PACKWOOD. Yes. Isn't that the principal reason why your employment is down?

Mr. ROBOZ. I don't believe so.

Senator PACKWOOD. With only eight percent imports——

Excuse me, Mr. Chairman, I will come back to this.

The CHAIRMAN. Let me pursue this line of questioning a bit. This industry has had import protection since 1950. We are talking now about making it permanent under this piece of legislation.

We have seen a situation where there is a very material drop in employment in the industry, but we have also seen an increase in productivity.

And then, I listened to the testimony about the vast differences in the wage scales between some of these countries and our own.

Is it the contention of the witnesses that you are always going to need import protection in order to have an industry in this country with that kind of differential in wages, in spite of the capital investment that you have made and the increase in productivity? Any one of you can answer that.

Mr. ROBOZ. I will make a brief comment and then ask Evelyn to chime in from the labor side. It is not our contention because obviously the bill contains a 10-year review by Congress to see if the same conditions still exist that exist now.

We have a provision for what I believe you call a "sunset" portion of the bill.

The CHAIRMAN. Around here, 10 years is almost forever.

Ms. DUBROW. Yes, there is a 10-year review after the bill is passed.

I would like to point out to both you, Mr. Chairman, and Senator Packwood that there is a difference between apparel and textiles. The textile industry is a highly intensive capital industry.

The apparel industry is a labor-intensive industry. We are competing with very low wages. We are competing with an industry that counts its profits in pennies and dollars rather than millions of dollars.

We are competing in an industry where more women, more minorities, more new immigrants come into this threshold industry; and as a result, our loss of jobs has put a number of our employers out of business.

We have lost thousands of apparel shops across this country, in many cases, in rural communities, where it is the only industry on which the farm community can count for additional income into the community.

So, there is a difference. I know that Senator Packwood is interested in productivity.

We use the state of the art technology in the apparel industry, but we cannot compete on the abysmal low wages and the terrible working conditions of our major competitors from abroad.

The **Chairman**. Let me comment. I don't look on it really as a sunset, as I read this legislation. It reads to me more as a review. Now, here is a part of my dilemma. I basically want to break down barriers, and I basically want to push for free trade.

But then, I run into the problem that along the United States border with Mexico, there is the highest unemployment in the United States. I run into the lowest per capita income in the United States. I run into counties that have as high as 22 percent unemployment.

I look at it, knowing that the only way you can turn it around is if those folks can have productive jobs. I also look at relatively low skills and trying to find productive employment for them. Much of that is in the apparel industry.

Ms. **Dubrow**. That is exactly right.

The **Chairman**. I don't see that situation along the Texas-Mexican border turning around for some time.

Ms. **Dubrow**. Mr. Chairman, I think it would turn around somewhat if we were allowed to maintain what is now the domestic part of the market. In women's and children's apparel, which I know better than any other sector of this industry, the penetration rate is now nearly 54 percent.

We are doing a projection on that, and we will be delighted to give you our report on it. And we are saying if we can control at least the part of the market that we are trying to save, we think we can turn around some of these problems on the Mexican border or in other places where apparel is such a big industry.

It seems to me that, instead of trying to give away our apparel industry where these people can find jobs, because they are very intelligent, good producers. We should be trying to maintain the industry. Their problem is that there is no other job they can go to unless it is a service job that pays less because of their lack of knowledge of the English language, their inability to handle technological jobs.

And instead of suggesting that we get rid of all the jobs in the apparel industry—women's and men's and boys' apparel—we think what the Congress should do is say we have a right to 48 percent of the domestic market. We have a right to protect those people who have no other place to go for jobs.

And this is simply our case, Mr. Chairman.

The **Chairman**. I see my time has expired. I heard my friend from Rhode Island make a very impassioned speech the other day for people that were earning relatively low wages in his State, and that was in the jewelry business, many of them immigrants. I will just call on him now for his comments.

Senator **Chafee**. Thank you, Mr. Chairman. I would like to ask Mr. Roboz a question, if I might. Your pages aren't numbered, but what would be page 3 of your testimony, you state that the jobs weren't lost because the American consumer was saving money by buying imported apparel.

The consumer was actually paying more for imports than he was paying for Made in the U.S.A. products. The average price paid for a domestically made man's garment was $6.42 in 1986 compared to $6.60 for an import.

I don't understand that. Why are they buying the import? Why would somebody pay more for an import than he would for a domestic product?

Mr. ROBOZ. To answer that portion of your question directly, sir, let me just say it may be because that it is all the retailer offers him.

Senator CHAFEE. Pardon?

Mr. ROBOZ. That may be all the retailer is offering him.

Senator CHAFEE. Oh, your suggestion is that the retailer is getting such a high market on the imported product that he would sell it for a higher price than he would a domestic product?

Mr. ROBOZ. I would say that may be one of the answers, but let me show you something.

Here are three shirts, the Arnold Palmer label. Each one retails for $18.00. One is made in Colombia; one is made in Taiwan; and one is made in the United States.

That means that the retailer retains the profits of the imported item, which was much lower than the American item and did not pass it on to the consumer.

You know, there has been much talk here about the profitability of the textile and apparel industry. I would like to point out to you that the retail industry has had enormous increase in profits last year, 17 percent.

Senator CHAFEE. I just want to get back to your testimony, though.

Mr. ROBOZ. Yes.

Senator CHAFEE. Your testimony was that the domestic products were less expensive—not equal, but less expensive; and I just find that extraordinary—unless it is quality or style—that the Americans would be paying more for an imported good than they would for a domestic good.

And you have given the example of $6.60 versus $6.42.

Mr. ROBOZ. Do you remember the testimony, I believe, of Senator Hollings in which he showed you that FAA bulletin which recommended the imported jeans as opposed to the domestic jeans?

Now, it happens that those imported jeans are all so-called "designer" jeans which retail at a much higher price than the basic jeans. Therefore, the public in its purchase of imported apparel is buying higher priced apparel than the domestic apparel.

And in many cases in many stores, there is very little domestic apparel available any more; and so, I encourage you on next Saturday to go into a store and just take the men's dress shirt item——

Senator CHAFEE. Oh, I recognize that.

Mr. ROBOZ. And see how many of the dress shirts available there are available as domestic made dress shirts.

Senator CHAFEE. I do recognize that.

Mr. ROBOZ. You are asking me a statistical question, and that is a statistical aberration that is causing that.

Senator **Chafee**. All right.

Mr. **Roboz**. Would the chair like to have these shirts. [Laughter.]

Senator **Chafee**. What is the size? [Laughter.]

I would like to go on to a question for Mr. Murray. Mr. Murray, one of the confusing points we have before us is the question of nonrubber versus rubber; and this bill just applies to the nonrubber, and there is an impression that it doesn't apply to ordinary sneakers that children would buy. For example, here, this children's shoe I have here is a nonrubber shoe, under my understanding.

In other words, what is a rubber shoe? Is the only thing that is considered a rubber shoe a pair of rubbers or rubber boots?

Ms. **Evanson**. The difference between rubber and nonrubber is basically the distinction that the Customs Service uses and some domestic producers. A fabric upper sneaker with a rubber outsole would be a rubber shoe.

That sneaker with a leather upper is nonrubber footwear and would be covered under the quotas.

Senator **Chafee**. Most of the shoes that are bought for children at Kinney's or wherever are nonrubber, I assume?

Ms. **Evanson**. There is an equal amount of rubber footwear imported in the athletic category. I can provide the numbers, but we get 175 million pairs of shoes from Korea in the nonrubber category, and they are almost all athletic.

We also get a very large number of rubber athletic shoes imported as well.

Senator **Chafee**. I am merely trying to ascertain what children wear, and it isn't just for athletics. I mean, they go to school, and they do everything in sneakers nowaways.

I just wanted to make clear that what they are buying in most instances is nonrubber.

Ms. **Evanson**. If it has a leather upper or a vinyl upper, it is nonrubber footwear. That is correct.

Senator **Chafee**. In other words, this would be a nonrubber?

Ms. **Evanson**. Correct.

Senator **Chafee**. Thank you very much, Mr. Chairman.

The **Chairman**. Senator Moynihan?

Senator **Moynihan**. Mr. Chairman, if I could address myself to you in the first instance on the question you asked about what it will take to maintain some level of employment and some level of production in this industry, I think the answer is some level of protection.

The **Chairman**. Some level of——

Senator **Moynihan**. Some level of open, avowed protection. I now observe a quarter-century anniversary. I see Stanley Nehmer is in the audience, and he will remember it.

In 1962, President Kennedy proposed his Trade Expansion Act of that year. It was his first bill he had in the new legislature that year.

And the normal patterns of coalition up here showed that the Southern States had always been supportive of open trade and the Middle West had not; and suddenly, this would be a new round of GATT. And word came that, no, we needed some quotas on textiles.

And then the ILGWU with Evelyn Dubrow and the Amalgamated Clothing Workers were brought into it, and three of us were sent over—Mike Blumenthal and myself, and Hickman Price from Commerce—in respect to negotiating the first long-term cotton textile agreement.

I think—and Mr. Nehmer is in the audience, and he might remember, if I could ask, Mr. Chairman—about 12 percent of apparel was imported. Would that be about right?

Mr. NEHMER. That is right.

Senator MOYNIHAN. And we have gone from 12 percent to over 50 percent, and it will go on inexorably to 100 percent unless we make some judgment about what are our interests here.

I just think that that is the reality. If we have had 25 years of this and there is a steady increase, not the lack of capital energies in textiles; apparel, yes, too; and it is much less a unified group than it appears.

Mr. Roboz, you showed us the three shirts. Where is the American shirt manufactured?

Mr. ROBOZ. I do not know, sir.

Senator MOYNIHAN. You are an apparel manufacturer?

Mr. ROBOZ. Yes, sir.

Senator MOYNIHAN. You work in North Carolina, sir?

Mr. ROBOZ. Yes, sir. I do.

Senator MOYNIHAN. Are your plants unionized?

Mr. ROBOZ. No, sir. They are not.

Senator MOYNIHAN. They are not unionized?

Mr. ROBOZ. No, they are not.

Senator MOYNIHAN. Right. And you are in women's apparel?

Mr. ROBOZ. Men's and boys'.

Senator MOYNIHAN. Men's and boys'? So, you have no amalgamated plants?

Mr. ROBOZ. I have no amalgamated plants, but I have run companies with amalgamated plants.

Senator MOYNIHAN. Yes. Workers' rights—[Laughter.]

Mr. ROBOZ. And they are happy to talk to me nevertheless.

Senator MOYNIHAN. I am happy to talk to you myself, Mr. Roboz. [Laughter.]

Could I turn to Mr. Murray, if I may, Mr. Chairman? I am a neighbor of yours, and the next county down from Susquehanna is Binghamton. The extraordinary thing about footwear is that 83 percent is the penetration.

The question arises: How do you stay in business, sir? I mean, you obviously have some edge to keep the last 17 percent holding on. It is not because you have a unique line of footwear; it is a general line of footwear at Endicott-Johnson.

Mr. MURRAY. My company has the unique advantage of being well financed. So, we have put in much of the latest technology, which incidentally has developed just over the last few years. It has been amazing.

Senator MOYNIHAN. Just recently?

Mr. MURRAY. It has been within the last 4 or 5 years, and I would say frankly that I think that this plan that we submitted to the ITC in 1985 to show the Commission that we wouldn't need long-term help, and I think maybe that would be interesting to have as part of my testimony——

Senator **Moynihan**. Could we have that, Mr. Chairman?

The **Chairman**. Yes, by all means. In fact, I was going to ask you about that.

[The information follows:]

TESTIMONY
BEFORE THE U. S. INTERNATIONAL TRADE COMMISSION

George Langstaff

President
FOOTWEAR INDUSTRIES OF AMERICA

Chairwoman Stern and Members of the Commission:

(Slide 1)

Introduction

My name is George Langstaff and I am President of Footwear Industries of America, Inc. The U. S. nonrubber footwear industry recognizes that during a five-year period of meaningful import relief, it must undertake aggressive programs in the fields of marketing, technology and general management in order to significantly narrow the competitive gap. Today I will give you some insight into the industry's Plan of Action which has been developed through hundreds of hours of effort by dozens of key industry executives serving on FIA task forces and which is already underway. Time permits only a general overview of the plan which is described in detail in our prehearing brief. Also, my comments will focus on a general overview of the program and not on the quantifiable results which we expect to achieve. This will be covered in our economic analysis which will be presented by Mr. Reilly of ICF, Inc.

My comments will concentrate first on the technology plan since we expect some of the developments in this area to have major marketing implications.

(Slide 2)

Technology Plan

The U. S. footwear industry recognizes that one of its prime objectives must be to achieve the highest possible level of technological competence and innovation if it is to survive in the extremely competitive world trade environment which exists today. Consequently, it has already embarked on a comprehensive program to address this entire subject. The successful conclusion of this effort depends upon a five-year period of import relief during which domestic producers would have a stable production base at levels which would encourage capital investment in new technology.

The technology plan covers three phases:

(Slide 3)

(1) Phase One

- Determine state-of-the-art in shoemaking technology.
- Measure the degree of advanced technology utilization.
- Identify major industry priorities.
- Create a management mechanism to accelerate the development and utilization of new technology.

This phase of our plan has already been completed with grant assistance from the Trade Adjustment Assistance Division of the Department of Commerce. We now know exactly what constitutes the state-of-the-art technology for the 54 most significant operations in the shoemaking process. The degree of current utilization of these technologies in our industry has also been measured. Finally, based on the criteria of "labor intensity" and "quality impact," priorities have been set for future technological research and development.

With these industry-approved priorities as guidelines, the industry then established a New Technology Task Force under FIA's Technology Steering Committee and charged it with the responsibility for implementing an aggressive program of new technology development and utilization. This task force is hard at work and has generated a whole series of events to educate the industry and to stimulate focused R & D activity.

(Slide 4)

(2) Phase Two

Develop full utilization of currently available advanced technology.

The technology study completed in Phase One clearly shows that there is a major opportunity for improving productivity, quality, material utilization and turn-around times through the full utilization of currently available advanced technology.

The FIA New Technology Task Force has created a technology evaluation procedure which will enable companies to measure their current equipment against state-of-the art technology in order to pinpoint investment opportunities; a "plant-audit," if you will. With the investment criteria now being developed, such opportunities can be evaluated to determine the most cost effective alternatives. From this, a comprehensive capital investment scheme consistent with the financial resources of the company will be developed.

Existing technology, if fully utilized, offers significant opportunity for reducing the selling price of U. S. footwear, thus improving domestic competitiveness. Given a stable investment environment, Phase Two will concentrate on bringing the industry up to the highest possible level of state-of-the-art technology, thereby allowing it to reduce the cost gap sufficiently to compete effectively with imports. Our economic analysis, presented later by Mr. Reilly, will demonstrate the dramatic potential of current technology if an effective import relief program is implemented for a full five-year period:

(Slide 5)

(3) Phase three

- Stimulate a comprehensive program for applying leading edge technology to the target priorities of the footwear industry.

Exciting opportunities exist today for changing the entire face of shoe-making technology in a few brief years. A comprehensive plan of development has already been designed by FIA's New Technology Task Force and is described more fully in our prehearing brief. The driving force in this effort to develop leading edge technology for the industry is the pervasive and revolutionary impact of the computer. Beginning with the application of the computer to the design and pattern grading functions, there is an enormous explosion of opportunities which then become possible.

(Slide 6)

The New Technology Task Force sees CAD - Computer Aided Design - as the hub of a wheel from which many spokes radiate.

These are the great opportunities of the future. They are within our grasp and offer promises of dramatically improved productivity, increased material utilization, lower overhead, shortened lead time and superior quality. Phase Three will be devoted to aggressive efforts to bring about extensive research and development on a new wave of advanced technologies to begin coming on-stream in the late 1980's and the early 1990's.

(Slide 7)

In order to give some insight into the breadth and potential of this activity, let's look at the basic work components.

CAD -- Computer Aided Design

CAM -- Computer Aided Manufacturing

- Components manufacturing
- Shoe manufacturing

CAE -- Computer Aided Engineering

- Costing
- Plant management

(Slide 8)

CAAS-- Computer Aided Administrative Systems

- Manufacturing requirements planning
- Inventory management

Quality Management

Human Resource Management

- Acquisition
- Training
- Motivation
- Labor relations
- Ergonomics

(Slide 9)

Detailed concepts of implementation, management, financing, timing and benefits have been analyzed and incorporated into the total plan.

Basic Components	Objective of Work	Responsibility	Management Concept	Financing Concept	Timetable	Benefits				
						Mat	Lab	OH	Qual	Time

(Slide 10)

Since computer-aided design is the heart and soul - the hub - of the future technology explosion, I want to explain that work heading in more detail.

The technology now exists to achieve three-dimensional design on the computer with solids modeling and color graphics. There are several resources and a number of installations, almost exclusively in the large companies. We see the immediate prospect of two developments which will provide the basis for revolutionizing the shoe design and manufacturing process. First, as computer costs decrease and as multiple user consortiums are created, computer-aided design will become practical and financially available to virtually every U. S. company. Some systems are now available for well under $100,000. Second, color graphics combined with sophisticated surface texturing -- which is already being demonstrated -- will make it possible to achieve truly aesthetic designing right on the computer screen. This means that a shoe designer who has been properly trained to use the new technology may interactively use the computer to design footwear. With the instantaneous capability to change the lines of the product, the texture of the material, the colors, the ornamentation and stitching patterns, the design and product development process will be enormously improved and significantly shortened. Once the design is set and the patterns are graded, the data base has been established upon which the technology of the future will depend.

(Slide 11)

Stages 1 and 2 are now commercial. For stages 3, 4, and 5, FIA is acting as the responsible party to bring together the suppliers and the users of the new technology to identify the possible avenues for development. On April 3 a CAD seminar was held by FIA to address this entire issue. FIA will assume the responsibility for pushing this activity ahead.

(Slide 12)

Management options for this activity are still open. It appears that several supplier companies are moving ahead on their own without further assistance. There is also the possibility of a joint venture between two or more companies to address these needs. FIA could act as a catalyst in bringing about such a venture.

(Slide 13)

No special funding is required here at present. If private efforts do not bring adequate results within a reasonable time, then it would be possible from the scholarly work done thus far to create a research project which would be worthy of funding through either a government or private grant, a research limited partnership, or some other means.

(Slide 14)

The timetable shows that both stages 1 and 2 are now operational while stages 3, 4, and 5 are under development, with 1987 being the expected date for successful completion. These stages would be operational from 1987 on.

(Slide 15)

The benefits which can be quantified are grouped into five categories - material savings, labor savings, overhead savings, quality improvement and time savings. Obviously, there is much room for disagreement about what is possible. The Task Force which developed this plan has provided its best individual and collective evaluation of what can be achieved. The estimates are conservatively stated based on the assumption of a period of five years of import relief which would provide a fertile investment environment.

(Slide 16)

In summary, the Technology Plan will promote rapid development of new concepts of footwear manufacturing which will greatly enhance the competitiveness of the domestic industry.

(Slide 17)

Marketing Plan

As an industry, we recognize the important challenge to make our individual and collective marketing programs superior to those of our most aggressive competitors. In-depth knowledge of the American consumer and retailer is paramount. Our ability to react quickly and effectively to the changing needs of these two constituencies will play a major role in our future ability to survive. Fortunately, much is happening which offers great promise in improving our ability to compete. The marketing action plan focuses heavily on several of these developments.

(Slide 18)

The basic plan components are:

Product Design
Consumer Research
Sales Management Training

Strategic Planning at the Corporate and Marketing Levels
State of the Art Sales and Marketing Technologies
Export Trading Assistance
Computer Software Specific to Footwear

Here again, detailed concepts of implementation, management, financing, timing and benefits have been analyzed and incorporated into the total plan.

(Slide 19)

The product design area is a good case in point. With the explosion of the computer-aided design technology envisioned in the technology plan, there is a tremendous opportunity to create a U. S. capability for utilizing this technology more rapidly and effectively than our major competitors. American fashion designers working with advanced computer graphics will produce better products, more rapidly and with better utilization of labor and material than our foreign competitors.

(Slide 20)

FIA, working through an industry Task Force, will assume this responsibility.

(Slide 21)

We can envision the creation of a computer design program at the Fashion Institute of Technology, the Parsons School of Design, or some similar fashion-oriented academic institution. This would be a cooperative effort of the selected institution, an industry task force and appropriate technology suppliers, with FIA acting as the catalyst.

(Slide 22)

Such a program may require some initial development and seed money for the industry but once established should be self sustaining.

(Slide 23)

The development will tie in closely with the CAD technology and should be operational in 1987.

(Slide 24)

The obvious major benefit will be fashion-oriented designers knowledgeable in computer-aided design who can understand fashion trends, as well as consumers and retailers. They will also be able to utilize modern technology to translate this knowledge quickly and effectively into products that meet the needs of our customers and can be delivered quickly with favorable costs.

(Slide 25)

Conclusion

This industry is desperately injured and we need a five year period of comprehensive, effective relief from surging imports. However, we are not afraid to commit our efforts and our resources to an ambitious industry-wide plan of action. It has taken three years to develop this plan; we believe in it. All we ask is the opportunity to implement it in an environment which gives us a reasonable chance for success.

COMMITTEES OF THE U. S. FOOTWEAR INDUSTRY WHICH CONTRIBUTED TO THE DEVELOPMENT OF THE FIVE YEAR PLAN OF ACTION

FIA TECHNOLOGY STEERING COMMITTEE

Chairman

Robert Stix	Group Vice President	U. S. Shoe Corporation

Committee

William J. Barrett	National Sales Manager	International Shoe Machine
Walter Bond	Vice President	Kinney Shoe Corp.
Louis G. Freeman, III	President	Louis G. Freeman Co.
Curtis R. Johnson	Executive Vice President	Brown Shoe Co.
Horst Lachmayr	Vice President	Klockner Ferromatik Desma
Richard A. Letch	Technical Director	USM/Emhart
Barry Levine	President	Hudson Machinery Corp.
Charles Marlin	Manager	Clear Lake Footwear
John McQuaid	Vice President	Converse, Inc.
George H. Nelson	Dir. QA & Prod. Research	Wolverine World Wide, Inc.
Sven Oberg	Vice President	Wellco Enterprises, Inc.
Roland K. Peters	Vice President	Craddock-Terry Shoe Corp.
Ray Peterson	Technical Director	American Shoe Machinery Co.
Saul Putterman	President	Milton Shoe Mfg. Co., Inc.
John H. Schott	Executive Vice President	Leverenz Shoe Co.
Norman Sessler	Vice President	Compo Industries, Inc.
Myron Shapiro	President	Boston Machine Works Co.
Alan Wainberg	Group Vice President	G.H. Bass & Co.

FIA NEW TECHNOLOGY TASK FORCE

Chairman

Alan Wainberg	Group Vice President	G.H. Bass & Co.

Committee

David Barrett	Vice President	U. S. Shoe Corp.
Lloyd Brunkhorst	Director, Research & Eng.	Brown Shoe Co.
Richard Gladstone	Director, Technical Services	Converse, Inc.
Bruce Q. Hanley	Vice President, Mfg.	Falcon Shoe Mfg., Co.
George H. Nelson	Dir. QA & Prod. Research	Wolverine World Wide, Inc.
John H. Schott	Executive Vice President	Leverenz Shoe Co.
Ron E. Whittaker	Assistant Director	SATRA

TECHNOLOGY FIVE YEAR PLAN TASK FORCE

Chairman

George Langstaff	President	Footwear Industries of America

Committee

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Lloyd Brunkhorst	Director, Res. & Engr.	Brown Shoe Co.
Saul Putterman	President	Milton Shoe Mfg. Co.
Lee McKinley	Vice President	Footwear Industries of America
William Scanlon	President, F/W Mach.	USM/Emhart
Alan Wainberg	Vice President	G. H. Bass & Co.
Walter Wilhelm	Vice President	Microdynamics, Inc.

MARKETING STEERING COMMITTEE

Committee

Dean K. Clark	Vice President, Sales	Sebago, Inc.
Gregory Diamant	Chief Operating Officer	Desco Shoe Corp.
William Foshage, Jr.	President, Footwear Products	The Biltrite Corp.
Paul Hansen	Executive Vice President	Penobscot Shoe Co.
David J. Hill	Vice President, Sales	Quabaug Rubber Company
William Hill	Vice President	American Shoe Machinery Co.
William E. Homrighaus	Executive Vice President	Daniel Green Co.
James C. Kostelni	President	Georgia-Bonded Fibers, Inc.
Charles Lauer	Vice President, Operations	Selby Shoe Co.
Robert I. Livingston	President	Emerson Textile Co. Div., Chelsea Industries
Jim Marrs	Vice President, I.R.D.	Brown Shoe Co.
Thomas B. McAlister	President	The Hanover Shoe, Inc.
Donald Munro	President	Munro & Co., Inc.
Roland H. Newman	Vice President, Marketing	Craddock-Terry Shoe Corp.
C. Leonard Richardson	President	Walker Shoe Co.
Missy Minor Shaw	President	P.W. Minor & Son, Inc.
Emanuel Weinrod	Vice President, Marketing	Norwich Shoe Co., Inc.

MARKETING FIVE YEAR PLAN TASK FORCE

Chairman

George Langstaff	President	Footwear Industries of America

Committee

Anthony Dorn	Vice President	Gold Seal/Sporto
William L. Fay	President	Faytex
Frank J. Flood	Vice Chairman	Wolverine World Wide, Inc.
Mike Lowenstein	Vice President	Footwear Industries of America
Charles C. Murray	President	Georgia Boot/Durango Boot
Gale Pate	President	Juvenile Shoe Corp. of America

FIVE YEAR PLAN OF ACTION

Executive Summary

Introduction

The U.S. nonrubber footwear industry recognizes that during a five year period of import relief, it must undertake aggressive efforts to achieve the highest possible level of technological development and marketing competence if it is to narrow the competitive gap enough to assure survival in the years to follow. Consequently, it has already embarked on a Five Year Action Plan which will be the key to accelerating the necessary developments. Given a five year period of meaningful import relief which provides a stable market place for domestic products, major capital investments in new technology and advanced marketing techniques and systems would be experienced.

The Action Plan concentrates heavily in two broad areas - technology and marketing. Industry Task Forces have been at work on the development of these plans.

Technology

A three-phase program has been underway for many months with phase one completed and phases two and three underway.

Phase One: Determine State-of-the-Art and Identify Major Industry Priorities for Technology Development.

With the help of financing provided by a Department of Commerce Trade Adjustment Assistance grant and the extensive cooperation of industry executives, this phase has now been completed. A clear identification of the current state-of-the-art on the 54 most important shoemaking functions has been determined together with the degree of penetration of this advanced technology. In addition, a priority has been established for the most needed technological developments in order to give clear targeting to those interested in addressing these priority needs.

In order to manage this process a New Technology Task Force (NTTF) has been established. This Task Force has already embarked on extensive efforts to educate the industry and suppliers of technology to the needs of the industry and to act as a catalyst in generating development activity. These activities will be highlighted under Phase Two and Phase Three discussions.

Phase Two: Develop Broad Utilization of Existing Advanced Technology.

The FIA New Technology Task Force has created a "Technology Evaluation" concept which, when fully implemented, will offer companies the opportunity to evaluate their currently used technology against state-of-the-art technology in order to pinpoint investment opportunity areas. With work which is now underway in the creation of appropriate investment criteria concepts, such opportunities will be evaluated in order to determine the most cost effective alternatives. From this a comprehensive capital investment scheme for the company being evaluated consistent with its financial resources will be developed.

Existing technology, if fully utilized, offers significant opportunity for reducing break-even selling prices of the U.S. products, thus improving domestic competitiveness. Given a stable investment environment, Phase Two will concentrate on bringing the industry up to the highest possible level of state-of-the-art technology utilization.

Phase Three: Stimulate a Comprehensive Program for Applying Leading Edge Technology to the Target Priorities of the Footwear Industry.

Major opportunities exist today for changing the entire face of shoemaking technology a few years in the future. A comprehensive plan of development has already been engineered by the New Technology Task Force and is presented in matrix form in later attachments. The driving force in this entire concept is the pervasive and revolutionary impact of the computer. Beginning with the application of the computer to the design and pattern grading functions there is an enormous explosion of opportunities which then become possible. The New Technology Task Force sees CAD - Computer Aided Design - as the hub of a wheel (ex. A) from which many spokes offshoot. These are the great opportunities of the future. They are within our grasp and offer major promises of improved productivity, increased material utilization, lower overhead, shortened lead time and superior quality.

Phase Three will be devoted to aggressive efforts to bring about extensive research and development on a new wave of advanced technologies to begin coming on stream in the late 1980's and the early 1990's. A review of the accompanying Phase Three matrix will give some insight as to what developments the NTTF envisions, how the development will be managed, what timetable is possible and what benefits might be expected.

Marketing

The Marketing Action Plan is designed to improve the basic marketing skills and techniques of the industry in a number of significant areas.

A. Product Design - Design and product development training for stylists and line builders utilizing advanced CAD systems. A targeted, consumer-oriented design program can provide the domestic industry competitive advantages in fashion timing, authenticity and efficiency of labor and material utilization.

B. Consumer Research and Education - An active program of consumer marketing and research training, information gathering, and consulting services will provide the industry with essential skills.

C. Sales Management Training - FIA, which already provides an annual skills development program for industry sales managers, will expand to full training so that it is current and effective for all elements of the industry.

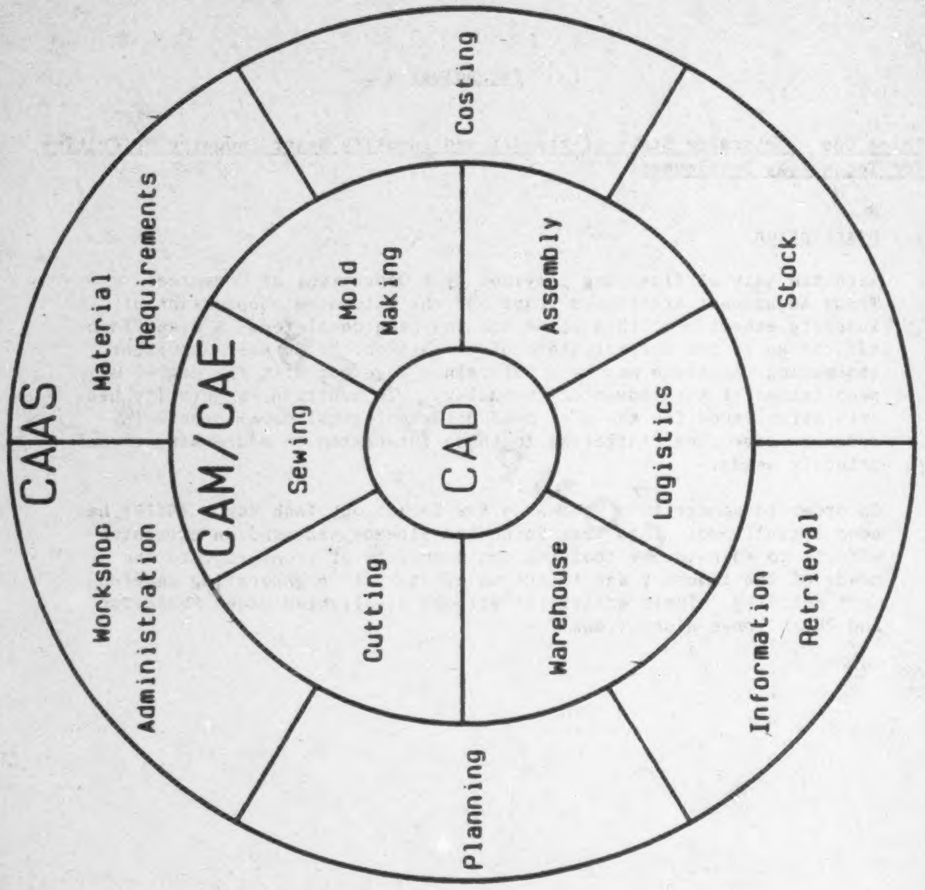
D. Strategic Planning at Corporate and Marketing Levels - Training and consultation services in the values and techniques of corporate/marketing planning will yield more consumer-focused activities.

E. State-of-the-Art Sales and Marketing Techniques - Many innovative new marketing techniques (catalogs, direct response, inside selling, telemarketing, etc.) will require accompanying new skills to maximize their effective use. FIA will offer a series of targeted seminars and training opportunities to domestic producers.

F. Export Trading Assistance - FIA will organize a centralized program for the industry which may include a non-competitive product consortium (trading company), education, training, and information - principally governmental - on oversees trade shows, all of which can make the domestic industry more competitive internationally.

G. Computer Software Specific to Footwear Industry - Many software programs are available to marketing management (research, product movement, financial databases, media, simulated test marketing, etc.). FIA will oversee development of universal marketing software specifically designed for the footwear industry. This can make such systems more cost-effective and efficient.

Exhibit A


CAAS
CAM/CAE
CAD
Workshop Administration
Material Requirements
Costing
Stock
Information Retrieval
Planning
Sewing
Mold Making
Assembly
Logistics
Warehouse
Cutting

FIVE YEAR PLAN OF ACTION

Technology

Phase One - Determine State-of-the-Art and Identify Major Industry Priorities for Technology Development.

1. Description

With the help of financing provided by a Department of Commerce Trade Adjustment Assistance grant and the extensive cooperation of industry executives, this phase has now been completed. A clear identification of the current state-of-the-art on the 34 most important shoemaking functions has been determined together with the degree of penetration of this advanced technology. In addition, a priority has been established for the most needed technological developments in order to give clear targeting to those interested in addressing these priority needs.

In order to manage this process a New Technology Task Force (NTTF) has been established. This Task Force has already embarked on extensive efforts to educate the industry and suppliers of technology to the needs of the industry and to act as a catalyst in generating development activity. These activities will be highlighted under Phase Two and Phase Three discussions.

COMPLETED

Technology

Phase Two - Broad Utilization of Available Advanced Technology

A. Technology Evaluations

1. **Description and Rationale**

The development of a program for evaluating the manufacturing firms within the industry and establishing their technology versus available advanced technology would seem to be a logical first step towards making greater penetration of currently available advanced shoe machinery and systems. The benchmark for comparative purposes would be the "Survey of the State-of-the-Art in Footwear Manufacturing and Identification of Priorities and Mechanisms to Accelerate the Development and Application of Advanced Technology in the U.S. Footwear Manufacturing Industry," technology study made recently in cooperation with FIA and the Department of Commerce. In order to carry out the evaluation process, outside consulting firms would be used to supplement FIA efforts in this area. In addition to the evaluation program, seminars on State-of-the-Art technology, and Investment Criteria will be given by geographic footwear region. In order to demonstrate the effectiveness of installing and utilizing the available advanced technology, a computer factory simulation, comparing a typical low technology penetration factory versus one containing the most advanced available technology would be made. This simulation effort would quantify the complete savings summary if full utilization of available advanced technology were made.

2. **Development Responsibilities**

Technology evaluations would be the primary responsibility of the FIA Technology Divison which would make use of outside consultants where appropriate.

3. **Methodology/Management**

Overall development in management will be the joint responsibility of FIA Technology Division's staff, the consulting firms utilized, and the FIA Technology Steering Committee, including the New Technology Task Force.

Methodology/Finance

FIA and its industry members would be expected to finance the major portion of the technology evaluations. Should a research grant be necessary for the proposal computer factory technology simulation, this would be obtained from government sources.

Timetable and Check Points

Within the next several months consulting firms could be contacted to supplement FIA's efforts in regard to the factory evaluations. Technology seminars are presently scheduled beginning in April, 1985. The computer factory technology simulation, assuming a research grant is forthcoming, could commence in early 1986 and be completed by the middle of 1987.

Industry Benefits

The industry at present has a very low degree of penetration of advanced technology. Assuming full penetration of advanced technology under current conditions, tremendous savings, including labor, material, quality, and timeliness can occur.

Benefits Quantification

It is estimated that in labor alone a 6 % reduction in the ex factory price can be realized; at least a 3 % reduction in ex factory price can be attributed to material savings and overhead of 4 % and 17 days reduced from the complete cycle time. This assumes an industry making full utilization of available advanced technology.

Technology - Phase Two

B. Financing Alternatives

Description and Rationale

Many financing alternatives are available for potential users of currently available advanced technology. These alternatives and their sources will be identified. One of the favored methods of information dissemination in this area is through the use of regional investor seminars, as well as regional TAAC seminars.

Development Responsibilities

It will be the direct responsibility of the FIA Staff, its Technology Division and Executive Staff to identify the options available for funding and financing. This would also apply to regional investor seminars where local banks, venture capitalists, and other potential funding sources would be invited to attend. FIA would work in close cooperation with the regional TAAC's on any seminars in their areas.

Methodology/Management

Overall development and program management will be the responsibility of the FIA Technology Division Executive, using the committee and task force chairmen as plan coordinators.

Methodology/Finance

All program elements will be borne financially by domestic industry companies. In some cases FIA may initially, during development phases, underwrite costs. For government assisted research programs, FIA would bear no out-of-pocket expenses, but would rely heavily on "in-kind" contributions of its member committees.

Timetable and Check Points

Most of the financing alternatives, identification of sources of financing, the establishment of regional investor seminars, etc., can all be initiated in 1985 and completed in 1986.

Technology - Phase Two

C. Training

1. Description and Rationale

One of the major concerns within the domestic manufacturing industry is training. Specifically, training focused on first line supervision, factory foremen, superintendents, and mechanics' in-house training. FIA, through its training division, presently has a successful supervisory skills training program ("SST") already in place; a stitcher instructor training program; a diagnostic and troubleshooting training program; and is proposing a middle management training program. At the outset of the American Shoe Center, training was an integral part of the establishment of this organization, as it was felt by the founders to be a top priority area and one in which the footwear industry was deficient. During the Technology Five Year Plan-of-Action we are proposing a continuation of the training programs presently in place plus extensions of these programs and complementary programs to coincide with the annual Footwear Technology Conference, the Shoe Tech Machinery Exhibition, as well as Pirmasens, the international machinery exhibition held every three years in Germany. In addition, FIA's Personnel Management Conference and regional technology symposiums will be scheduled during this 5-year period. As new concepts are developed, such as "ergonomics" and the training activity associated with OSHA's hazard communication regulation, they also will be addressed.

2. Development Responsibilities

All of the present and proposed training programs will be the responsibility of the FIA Training Task Force, in cooperation with FIA's Training Director, to initiate and carry out. In some instances, such as the regional technical seminars, the New Technology Task Force will interface with the Training Task Force.

3. Methodology/Management

Overall, development and program management will be the responsibility of FIA's Technology Division working directly with the Training Task Force and the training director.

4. Methodology/Finance

Any new programs in the area of training will be developed and financed by both FIA and interested industry executives. As in the case of SST, six companies plus FIA each put in pledged amounts, or shares, in order to get the initial program started. Once introduced to the industry the programs were charged on a fee basis, and that practice is expected to continue for any new programs in the training area.

5. Timetable and Check Points

Most of the training programs are already in place and expect to remain so for the next five years. These programs will be extended and modified as necessary to keep pace with changes as they occur. With the exception of Shoe Tech and Pirmasens, which occur every three years, the proposed regional conferences and technology conferences will be on an annual basis.

6. Industry Benefits

The most direct benefit to the industry in terms of supervisory skills training will be in attracting and maintaining knowledgeable first line managers throughout the industry. This has been one of the industry's most severe problems over the years, and as technology advances it will become even more critical to have supervisors with the necessary skills to deal with high technology.

Assuming full utilization of all available training is made, it is expected to have a potential overhead savings of at least 1 % off the ex factory price, with a material savings of at least 1 % off the ex factory price. Fully trained, competent managers will also have a beneficial effect on quality and cycle time.

5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE TWO—BROAD UTILIZATION OF AVAILABLE ADVANCED TECHNOLOGY

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE[1]						BENEFITS[2]				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O'HEAD (%)	QUALITY (±)	TIME (days)
TECHNOLOGY EVALUATIONS	To achieve state-of-the-art U.S. industry														
	Enlist and train consulting firms to supplement FIA efforts	FIA	FIA Staff	FIA & Industry	X										
	Promote evaluation program throughout the industry	FIA	FIA Staff	FIA & Industry	X	X									
	Conduct regional state-of-the-art seminars focused on plant departments, e.g., lasting, etc.	FIA	FIA Staff & Consulting Firms	FIA & Industry	X	X	X								
	Conduct investment criteria seminars	FIA	FIA Staff & Consulting Firms	FIA & Industry	X	X	X								
	Develop computer state-of-the-art plant simulation	FIA & Consultant	FIA Task Force	Research Grant		D	X	>	>	>					
Savings summary if full utilization of available technology											3.0	6.0	4.0	+	17.0
FINANCING ALTERNATIVES	Identification of historic and non-historic sources of financing	FIA	FIA Task Force	FIA & Industry	D										
	Regional potential investor seminars • Acquisition of new technology • Venture capital for R&D	FIA	FIA Task Force	FIA & Industry	X	X									
	Trade Adjustment Assistance Center (TAAC) seminars	TAAC's & FIA	FIA Task Force	FIA & Industry	X	>	>	>	>	>					

[1] D = Under Development
X = Operational
> = Ongoing Activity

[2] MAT = % savings in factory selling price
LAB = % savings in factory selling price
O' HEAD = % savings in factory selling price

QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. is 150 days from concept to delivery.

5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE TWO—BROAD UTILIZATION OF AVAILABLE ADVANCED TECHNOLOGY *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
TRAINING	Supervisory Skills Training (SST)	FIA	FIA Staff	FIA & Industry	X	>	>	>	>	>				+	
	Stitcher Instructor	FIA	FIA Staff	FIA & Industry	X	>	>	>	>	>		1.0		+	
	Mechanic's Diagnostic and Trouble Shooting Skills	FIA	FIA Staff	FIA & Industry	X	>	>	>	>	>			1.0	+	
	Technology Conference	FIA & Industry Execs	FIA Task Force	FIA & Industry	X		X	X		X					
	Shoe Tech—tri-annual technology exposition	FIA & industry Execs	FIA Task Force	FIA & Industry		X			X						
	Pirmasens/Simac/ SATRA tour	FIA	FIA Staff	FIA & Industry	X			X							
	Personnel Management Conference	FIA & Industry Execs	FIA Task Force	FIA & Industry	X	>	>	>	>	>					
	Regional focused technology symposiums	FIA & NTTF & Suppliers	FIA Task Force	FIA & Industry	X	>	>	>	>	>					
	Ergonomics regional seminars	FIA	FIA Task Force	FIA & Industry	X		X		X					+	

[1]D = Under Development
X = Operational
> = Ongoing Activity

[2]MAT = % savings in factory selling price
LAB = % savings in factory selling price
O' HEAD = % savings in factory selling price

QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. is 150 days from concept to delivery.

Technology

Phase Three - Leading Edge Technology Development

A. CAD (Computer-Aided Design)

1. Description and Rationale

We have seen developments take place over the past 15 years in the 2D designing of patterns and pattern grading - all using the computer. In the past year or two, advancements have occurred in these areas, with 3D designing and solids modeling, graphics enchancements such as surface texturing, pattern grading from 3D - all are natural evolutions of today's technology. The core of all leading edge technology development within the footwear industry lies in this vital computer-aided design (CAD) area. (see Exhibit A).

2. Development Responsibilities

CAD's potential within the footwear industry has been principally in the hands of about six or seven commercial suppliers of available systems. It is the intention of FIA, along with its task force members, to work with these suppliers and help give the industry an understanding of the potential of CAD systems.

3. Methodology/Management

Overall development, management, and information dissemination lies in the realm of FIA to promulgate. As 3D last grading, graphics simulation, surfacing, etc. become more widely recognized as viable solutions, FIA and its task forces will most certainly play an important part.

4. Methodology/Finance

The use of complex graphics systems, 3D last grading, practical use of graphics systems, and the 3D grading of patterns from the last are all complex issues which require feasibility studies before their full potential is realized. For this reason a possible research grant from the government, with monies contributed by the industry, would be necessary.

5. Timetable and Check Points

2D design and pattern grading is already here. 3D design with solids modeling has started in earnest and by 1986 should be well developed. 3D last grading will probably commence as early as 1986 and have meaningful results by 1988; 3D pattern grading will undoubtedly be developed along with 3D last grading, and by 1988 we expect to see some new systems developed for this purpose.

6. Industry Benefits

Already some overhead benefit at the outset, where pattern engineers and model cutters are involved. Computer pattern grading certainly has already shown an improvement in quality and leadtime. As 3D pattern grading and last grading come into being a further reduction of 10 days from the lead time can be expected.

Technology - Phase Three

B. CAM (Computer-Aided Manufacturing)

1. Description and Rationale

The natural extension of computer-aided design is computer-aided manufacturing. The shoe geometry gathered and input during the pattern design stage of the shoe making process once captured can be used for a) last turning, b) mold making for heels, bottoms, wedges, insoles, and shanks, and c) die bending. In the factory operation, i.e. shoe assembly, this information can be used for tape and prom stitching, fancy stitching, functional stitching. The automatic cutting of leather would be a natural extension of CAD into CAM systems generated throughout the footwear industry.

In the lasting process we would probably start with microprocessor controlled lasting machines and progress into one machine lasting, and finally, move into some kind of robotics-assisted lasting procedures. In the bottoming area there is tremendous potential for computer-controlled roughing (already in existence), new breakthroughs in cement for sole attaching, automated outsole and insole preparation, and finally, robotics. In the finishing and packing areas automatic spraying through robotics is certainly a high potential. In the pre-fitting area such things as computer skiving, one-time cement reinforcement, and elimination of stitch marking, and finally, work transport and intelligent handling systems are a natural extension of any CAM system. Work cells are already in existence in a few factories within the footwear industry.

2. Development Responsibilities

Most of the CAM systems mentioned will be the responsibility of commercial suppliers to develop. In some instances, such as functional stitching, possibly leather cutting, and lasting, FIA and its New Technology Task Force would assist commercial suppliers in developing the most practical systems. Where necessary, FIA would assist supplier companies in organizing consortiums, joint ventures, and other methods for R & D work.

3. Methodology/Management

Where required, manufacturing task forces developed within FIA will work with suppliers and help guide in the development of the various factory computer-aided manufacturing operations.

4. Methodology/Finance

Certain programs, such as last turning, mold making, die bending, etc. will require no assistance in financing as it will be handled by the individual suppliers involved. In other instances, such as functional stitching and automatic leather cutting, there is the possibility of cooperative research and government grants. These will be developed on a case by case evaluation.

5. **Timetable and Check Points**

CAM last turning is possible as early as 1986; mold making is available now and can be much improved by 1986; automatic die bending is conceptually available now and could be completely developed by the end of 1986; functional stitching and true 3D stitching will probably not be possible until 1988; sequencing won't occur until 1989; automatic leather cutting is possible at almost anytime, and if started in 1986 could be completed in 1987. Other CAM possibilities, including lasting, bottoming, automatic spraying are likely between 1986 and 1988. Robotics in most of the areas will not be available until 1988, 1989 and 1990.

6. **Industry Benefits**

Last turning by computer-aided manufacturing techniques will speed up the process of introducing a new last by the manufacturer by approximately five days; mold making - ten days; automatic die bending - three days taken out of the cycle time. Lead times and the possibility for reducing them in this area have a great advantage over foreign competitors and the potential for drastically reducing these lead times lies in this area: i.e. the introduction of new lasts, molds, and dies. Percentagewise, the expected labor savings on prom stitching, decorative stitching, new methods of 2D and 3D stitching would be approximately 2 %, 1 %, 3 %, 3 % respectively, all off the ex factory price. In leather cutting we would estimate a 1 % labor saving and a 5 % material gain. In the lasting area the complete one machine lasting system would probably reduce labor by 2 %, and in the bottoming areas computer roughing would further reduce the labor content by 1 %. The possibility of such improvements as a new sole attaching cement, automated sole preparation, and automated spring computer skiving would all have less than 1 % anticipated savings in labor.

Technology - Phase Three

C. CAE (Computer-Aided Engineering)

1. **Description and Rationale**

A further extension of any integrated CAD system would be computer-aided engineering systems, including costing, labor standards, and material standards. Attempts have been made for several years to "piecemeal" such standards and in most instances these systems are not fully integrated with in-house main frame computer systems. Under a fully integrated CAD system, basic information originally stored for pattern design can be used for most CAE systems.

2. **Development Responsibilities**

The development of these systems would probably be initiated by a Systems Task Force already in place under FIA's Footwear Technology Conference Committee.

3. **Methodology/Management**

Overall development and management of the proposed CAE systems would be the responsibility of FIA's Technology Division along with the Systems Development Task Force.

4. **Methodology/Finance**

Any funding necessary to start the initial program development will be underwritten by FIA and its industry members.

5. **Timetable and Check Points**

The initial groundwork for labor and material standards stemming from any integrated CAD system could start as early as 1985. A complete system concept would depend on the length of time necessary to complete the CAD and CAM phases outlined in Paragraphs A and B.

6. **Industry Benefits**

Under current systems, even those that are fully automated and computerized, there is a tremendous waste in labor and effort organizing information, even though it could very well have been captured during the pattern design phase. Once fully integrated, this overlapping of information gathering could be eliminated.

7. **Benefits Quantification**

We estimate that at least two days of the initial "upfront" development time of new styles could be eliminated by a fully integrated computer-assisted engineering system.

Technology - Phase Three

D. CAAS (Computer-Aided Administrative Systems)

1. Description and Rationale

As in computer-aided engineering systems, administrative systems for the footwear industry having computer applications which could be fully integrated with the previously mentioned CAD system include: materials' requirements planning MRP: (computer explosion of these requirements) order entry, invoicing, finished goods, production tags, raw materials, accounts receivable, work in process, purchase orders, piecework payroll, accounts payable, cutting analysis. All of these "systems" are a natural extension of a complete CAD system into a CAAS, as this information is captured originally during the pattern design stage. Further down the line is plant layout, including computer graphics for the automated factory, shopfloor control, and others.

2. Development Responsibilities

The development of each of these systems would be accomplished by FIA and its task forces. The Systems Task Force would play a major role in this area.

3. Methodology/Management

The overall development and management of the systems area will be the direct responsibility of the FIA Technology Division. Here, again, major contribution would be made by industry executives and companies employing one or more of these systems.

4. Methodology/Finance

Most of the program development will be carried out by FIA Task Forces already in place, and no anticipated financing is required other than the in-kind contribution presently being given by industry members. In certain instances, such as the investigation of multi-shift operations, an in-depth study requiring a research grant might be feasibile.

5. Timetable and Check Points

Much of the groundwork for establishing the proposed CAAS information is already available. During 1985 most of the preliminary work will be started, and it should be completed by late 1986.

6. Industry Benefits

Many of the proposed systems are very difficult to quantify since there are so many "soft" benefits involved. For certain of these systems already in place and available commercially, savings in materials, labor, and lead times can be quite significant. With an effective MRP system, for example, reduction in obsolete materials resulting from effective use of such systems can be enormous. Obsolete upper materials in the mens' and womens' fashion leather footwear business is a primary cost of doing business. Any reduction in seasonal obsolescence in this area, even as low as one percent can mean tremendous savings to these companies.

Technology - Phase Three

E. Quality Management

1. **Description and Rationale**

The introduction of statistical quality control to the footwear industry by comprehensive quality management techniques will become of primary importance during the next five years. As high tech systems and equipment penetrate the footwear industry, the control of quality becomes even more critical. Unlike the domestic automobile industry, where quality has deteriorated when compared to Japanese imports, American footwear is perceived to the domestic consumer as being the highest in the world. It is essential during our five-year technology plan that we include a proposal to maintain these high standards.

2. **Development Responsibilities**

The FIA Technology Division will develop the program format with the help of industry executives.

3. **Methodology/Management**

A special FIA Task Force for quality management will be organized, to include a quality management consultant, a professional in the field assigned to the task force.

4. **Methodology/Finance**

FIA and the industry would share the cost of this program. It is also possible that a special grant should be considered.

5. **Timetable and Check Points**

An industry survey and report to the task force would require four to six months. Identification of a consultant, funds generation, and initiation of the project could start in early 1986 and be fully operational by the first six months of 1988.

6. **Industry Benefits**

The most obvious and immediate benefit for improved quality would be in lessening the competitive gap between imports and domestic high quality shoes. Seasoned United States buyers throughout the Far East see a rapid improvement in the quality of shoes coming out of countries such as Korea. Setting the cost advantages aside, as import quality improves, it is even more essential that domestic shoes continue to have a high quality image with the domestic consumer.

7. **Benefits Quantification**

Improved quality does not mean increased labor costs; on the contrary, improved quality leads to improved efficiencies with corresponding labor savings of at least one percent, and material savings of at least two percent, from the ex factory price.

Technology - Phase Three

F. Human Resource Management

1. **Description and Rationale**

To develop programs and techniques for attracting qualified managers to the footwear industry. The Human Resource Management Program would have five primary areas of concentration: 1) acquisition, 2) training, 3) motivation, 4) labor relations, 5) ergonomics.

2. **Development Responsibilities**

Each of the program formats will be developed by FIA's Technology Division, in cooperation with industry executives and the FIA Training Task Force.

3. **Methodology/Management**

Overall development and management will be the responsibility of the FIA Technology Division using the Training Director as liaison. In the field of labor relations, we would hope to create innovative concepts for labor/management relations with the cooperation of FIA Staff and industry.

4. **Methodology/Finance**

In each of the four areas of human resource management FIA and the industry will share the cost of financing, with the exception of the labor relations area, where the unions will be asked to contribute towards the project.

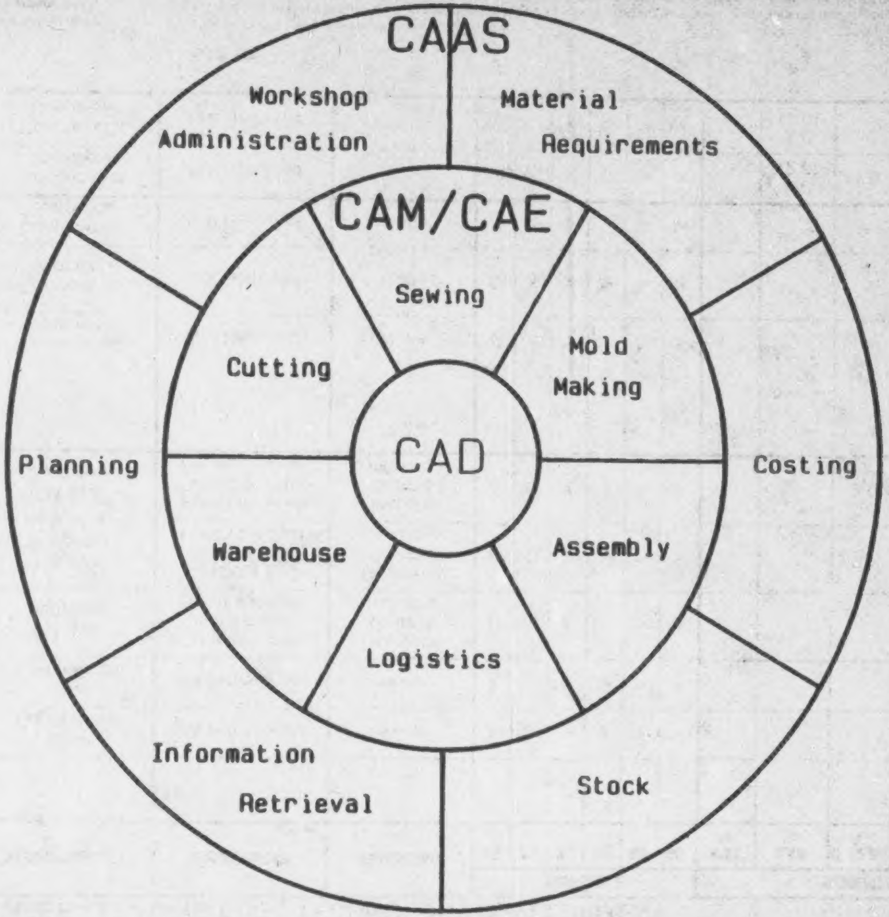
5. **Timetable and Check Points**

All of the programs involving human resource management will be developed during 1985, 1986. Certain programs will take precedence over others as there will be a natural transition from one type of training into other types (first line management - middle management - strategic management).

6. **Industry Benefits and Benefits Quantification**

Although not specifically quantifiable, the benefits to the industry in this area are considered to be in the area of "soft" or intangible benefits. They are, however, extremely important areas, and in the case of programs already in place, such as SST, written testimonials from users of this program prove its worthiness to the industry. In the area of labor relations the role of the labor unions working in cooperation with FIA and industry executives will be an essential ingredient to any five year plan of recovery.

Exhibit A


CAAS
Workshop Administration
Material Requirements
CAM/CAE
Sewing
Cutting
Mold Making
CAD
Planning
Costing
Warehouse
Assembly
Logistics
Information Retrieval
Stock

5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE THREE—LEADING EDGE TECHNOLOGY DEVELOPMENT

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
CAD—COMPUTER AIDED DESIGN	Full utilization of computer in design process														
	2D design and pattern grading	Now Commercial	FIA Promulgate	None	X	>	>	>	>	>					(7.0)*
	3D design with solids modeling	Now Commercial	FIA Promulgate	None	X	>	>	>	>	>				+	(10.0)*
	3D last grading	FIA with Suppliers	Consider joint venture with FIA as catalyst	Research Grant & Industry	D	D	X	>	>	>					10.0
	Graphics enhancement—surface texturing	FIA with Suppliers	Consider joint venture with FIA as catalyst	Research Grant & Industry	D	D	X	>	>	>					5.0
	Pattern grading from 3D	FIA with Suppliers	Consider joint venture with FIA as catalyst	Research Grant & Industry	D	D	X	>	>	>			2.0		2.0
CAM—COMPUTER AIDED MANUFACTURING															
Components	Last turning	Commercial Suppliers	Not Required	None	D	X	>	>	>	>	1			+	5.0
	Mold making—heels, bottoms, insoles, shanks	Commercial Suppliers	Not Required	None	D	X	>	>	>	>	1			+	10.0
	Cutting die bending	Commercial Suppliers	Not Required	None	D	X	>	>	>	>				+	3.0
Shoemaking	Tape & prom stitching	Commercial Suppliers	Not Required		X/D	X/D	X	>	>	>		2.0 (2.0)	1.0		
	Decorative stitching	Commercial Suppliers	Not Required		X/D	X/D	X	>	>	>		1.0 (1.0)			

* = ( ) = considered in phase two

'D – Under Development
X = Operational
> = Ongoing Activity

'MAT = % savings in factory selling price
LAB = % savings in factory selling price
O' HEAD = % savings in factory selling price

QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. is 150 days from concept to delivery.

5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE THREE—LEADING EDGE TECHNOLOGY DEVELOPMENT *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
Shoemaking *continued*	Functional stitching	FIA with Commercial Suppliers	Task force of manufacturers to work with suppliers to guide development	Co-op Research and/or Research Grant											
	Stage 1 (2D)—joining parts—flat				D	X	>	>	>	>	1.0	3.0	1.0	+	
	—Close edge stitching				D	D	X	>	>	>				+	
	—Back seam				D	X	>	>	>	>				+	
	—Tangential stitching				D	D	D	X	>	>				+	
	—Stitch and trim						D	D	D	X				+	
	Stage 2 (3D)—Joining of parts				D	D	D	X	>	>		3.0	1.0	+	
	—Close edge stitching				D	D	D	X	>	>				+	
	—Back seam				D	D	X	>	>	>				+	
	—Tangential stitching						D	D	X	>				+	
	—Stitch and trim							D	D	D				+	
	Stage 3 —Sequencing or automatic work movement between jobs					D	D	D	X	>		2.0	1.0		
	Cutting of manmade materials	FIA with Suppliers	FIA Task Force consider joint venture with FIA as catalyst	None	D	X	>	>	>	>	3.0				1.0
	Cutting of leather	FIA with Suppliers	FIA Task Force consider joint venture with FIA as catalyst	Co-op Research and/or Research Grant		D	D	D	X	>	3.0				1.0

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*MAT = % savings in factory selling price
LAB = % savings in factory selling price
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QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. ≈ 150 days from concept to delivery

5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE THREE—LEADING EDGE TECHNOLOGY DEVELOPMENT *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
Shoemaking *continued*	Lasting Stage 1 —Micro-processor control	Commercial Suppliers	Not Required	None	X	>	>	>	>	>		2.0	1.0		
	—"One machine" lasting	FIA with Suppliers	FIA Task Force	None	D	D	D	X	>	>					
	—Robotics				D	D	D	D	D	D					
	Bottoming —Computer controlled roughing	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	X	>	>	>	>		1.0		+	
	—Cement break-through	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	D	D	X	>	>	2.0	.5	.2	+	
	—Automated sole preparation	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	X	>	>	>	>		.5	.2		
	—Robotics	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	D	D	X	>	>					
	Finish/Pack —Automatic spraying	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None		D	D	D	X	>		.5	.2	+	
	Pre-fit —Computer skive	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	D	D	X	>	>		.2	.1	+	
	—"One time" reinforce	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	X	>	>	>	>		2.0	1.0	+	
	—Automatic stitch mark	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	D	D	X	>	>		.5	.2	+	.5

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5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE THREE—LEADING EDGE TECHNOLOGY DEVELOPMENT *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
Shoemaking *continued*	Work Handling Systems —Work cells	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None	D	D	D	D	D	D					
	—Prefit and fitting	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire	None											
	—Lasting	Commercial Suppliers	FIA Task Force to coordinate if suppliers desire												
	—Bottoming	Commerical Suppliers	FIA Task Force to coordinate if suppliers desire												
CAE—COMPUTER AIDED ENGINEERING	Generic software programs for footwear industry														
Costing Labor Standards	Computer created labor standards plus explosion of standard hours	Now Commercial	Identify and promote use of currently available systems	FIA	X	>	>	>	>	>		1.0	1.0		1.0
Material Standards	Computer created material standards plus explosion of material requirements	Now Commercial	Identify and promote use of currently available systems	FIA	X	>	>	>	>	>			1.0		1.0
Plant Management Plant Layout	Computer graphics spin off from labor and machine requirements data base	FIA with Commercial Suppliers	FIA Task Force	FIA & Industry	D	D	X	>	>	>					
Shop Floor Control	Real time management of production flow, job manning, etc.	Now Commercial	FIA Promulgate	FIA	X	>	>	>	>	>					
Multi-Shift Operations	Make in-depth study of barriers to multi-shift operation and devise solutions	FIA	FIA Task Force & Consultant	Research Grant or Industry	D	D	X	>	>	>					2.0

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5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE THREE—LEADING EDGE TECHNOLOGY DEVELOPMENT *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
CAAS— COMPUTER AIDED ADMINISTRATIVE SYSTEMS	Generic software and hardware programs for footwear industry														
MRP— Manufacturing Requirements Planning Materials Labor Machinery Lasts	Computer explosion of requirements	Now Commercial Systems Available	FIA Promulgate	FIA	X	>	>	>	>	>	1.0		1.0		1.0
Leading to creation of generic "just in time" system for footwear manufacturing															
Inventory Management Raw Materials In-Process Finished Goods Automatic Replenishment	Generic system to tie in with MRP system thus creating "just-in-time" inventory management from raw material to retail store	FIA & Industry Executives	FIA Task Force	FIA & Industry	D	D	X	>	>	>	1.0				
QUALITY MANAGEMENT	Application of modern quality control and management techniques to a generic footwear quality management system	FIA & Industry Executives	FIA Task Force	FIA & Industry	D	D	X	>	>	>	2.0	1.0		+	

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X = Operational
> = Ongoing Activity

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5 YEAR PLAN OF ACTION—TECHNOLOGY
PHASE THREE—LEADING EDGE TECHNOLOGY DEVELOPMENT *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS				
					85	86	87	88	89	90	MAT (%)	LAB (%)	O' HEAD (%)	QUALITY (±)	TIME (days)
HUMAN RESOURCE MANAGEMENT **Acquisition**	Develop programs and techniques to attract high potential managers to footwear industry	FIA & Industry Executives	FIA Task Force with Consultant	FIA & Industry	D	D	X	>	>	>	+	+	+	+	
Training	Develop industry specific management training at three levels:	FIA & Industry Executives		FIA & Industry											
	(1) First line management		Already available		X	>	>	>	>	>	+	+	+	+	+
	(2) Middle management		Under Development		D	X	>	>	>	>	+	+	+	+	+
	(3) Strategic management		FIA Task Force with Business School Consultant		D	D	X	>	>	>	+	+	+	+	+
Motivation	Develop industry emphasis on employee motivation to achieve maximum productivity, superior product quality, innovative problem solving, minimum operating overhead	FIA & Industry Executives	FIA Task Force	FIA & Industry	D	D	X	>	>	>	+	+	+	+	+
Labor Relations	Create innovative concepts for labor/management cooperation in the development and application of new technologies	FIA, Industry & Unions	FIA & Union Task Force	FIA, Industry & Unions	D	D	X	>	>	>	+	+	+	+	+
Ergonomics	Develop industry awareness of potential for productivity and quality enhancement from applying this science. Special emphasis on applications to new technology under development.	FIA	FIA Staff—maybe later a task force	FIA	D	X	>	>	>	>		1.0		+	

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X = Operational
> = Ongoing Activity

[2] MAT = % savings in factory selling price
LAB = % savings in factory selling price
O' HEAD = % savings in factory selling price

QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. is 150 days from concept to delivery

FIVE YEAR PLAN OF ACTION

Marketing

FOOTWEAR INDUSTRIES OF AMERICA

Five Year Plan of Action - Marketing

Introduction: The U. S. footwear industry has addressed the need to enhance professional capabilities in all facets of marketing in order to succeed in the highly competitive and rapidly changing footwear market. It has initiated several programs and has planned other activities to help achieve this overall goal, but its ultimate positive effect will depend to a large extent on the enactment of a five year period of import relief, during which time such activities can commence in a stable production and time period.

To achieve these goals, a seven part activity plan has been developed:

A. Product Design - Design and materials specification training for stylists and line builders. A targeted, consumer-oriented design program can provide the domestic industry competitive advantages in fashion timing and sensitivity and technical ability.

B. Consumer Research and Education - An active program of consumer marketing and research training, information gathering, and consulting services will provide the industry with essential skills. FIA has initiated activity in instruction of research methods, an overall annual marketing seminar, and provision of purchase data from a consumer panel service. Consumer research has been completed and will be renewed under U. S. government grant.

C. Sales Management Training - The increasing complexity of the sales management function within footwear-related companies requires on-the-job and total coverage classroom training. FIA, which already provides an annual skills development program for industry sales managers, will expand to full training so that it is current and effective for all elements of the industry.

D. Strategic Planning at Corporate and Marketing Levels - Many domestic footwear companies have, historically, [illegible] sales or manufacturing centered. Training and consultation services in the values and techniques of corporate/marketing planning will help streamline their operations and yield more consumer-focused activities.

E. State-of-the-Art Sales and Marketing Techniques - Many innovative new marketing techniques (catalogs, direct response, inside selling, telemarketing, etc.) will require accompanying new skills to maximize their effective use. FIA will offer a series of targeted seminars and training opportunities to domestic producers.

F. Export Trading Assistance - FIA will organize a centralized program for the industry which may include a non-competitive product consortium (trading company), education, training, and information - principally governmental - on oversees trade shows, all of which can make the domestic industry more competitive internationally.

G. Computer Software Specific to Footwear Industry - Many software programs are available to marketing management (research, product movement, financial databases, media, simulated test marketing, etc.). FIA will oversee development of universal marketing software specifically designed for the footwear industry. This can make such systems more cost-effective and efficient.

Marketing

A. Product Design

1. Description and Rationale

Product design and materials specification training (for sample development) for stylists and line builders, to make them more time responsive to market fashion trends. This would include technical training in consumer fashion (trends, color direction, materials). Although available in Europe and on a partial basis in the U.S. (such as at F.I.T. and Parsons) no complete marketing/technical design training program specifically for the industry has been available.

2. Development Responsibilities

Program format will be jointly developed by FIA Marketing and Technology Training Task Forces, FIA Training Director, and Marketing and Technology Division executives.

3. Methodology/Management

Overall development and management will be the joint responsibility of FIA Marketing and Technology Division executives. It is anticipated that program content will be accomplished by a combination of FIA Training, outside design consultants, and academic institutions or professional training consultants, with guidance from FIA committees.

4. Methodology/Finance

Initial program development will be underwritten by domestic footwear manufacturers (those with stylists and line builders who could use training) on a subscription basis, with costs to be shared equally.

5. Timetable and Check Points

Program concept will be developed within six to eight months.

- Pilot program (base modules) will be funded and developed over the next nine to twelve months.
- Initial training will take place from eighteen to twenty-one months from start point. At twenty-one to twenty-four months, the product design program will be fully operational with modules being added as required.

6. Industry Benefits

The domestic industry has historically relied on its own members, academic institutions, European design firms, other industries, etc. to train footwear stylists and line builders. A targeted, consumer-oriented design training program will potentially provide the industry a competitive advantage in terms of fashion timing, sensitivity, and technical ability.

7. Benefits Quantification

Reduction in sample development time in response to market trends. Improvement in design quality/professionalism. Precise time saving will be estimated prior to training, quantified after training (relative to pre-training experience).

Marketing

B. Consumer Research & Education

1. Description and Rationale

A single resource and system for consumer research training, information and consulting services for both manufacturers and suppliers, targeted particularly at small to medium-sized companies. Ongoing knowledge of consumer attitudes and purchase influences are keys to a more competitive marketing position for the domestic industry. This has begun with FOOT/TRACK* consumer footwear purchase data base and marketing research training seminars sponsored by FIA, and ongoing execution and use of consumer research to educate the public on values of domestically-produced footwear. Included in consumer research will be government funded programs to identify consumer purchase factors. The above programs were all operative in 1984, and it is intended that they be continued.

2. Development Responsibilities

Program will be jointly developed by FIA's Marketing Steering Committee, Marketing Research and Analysis Task Force, Marketing Training Task Force, and Training Director.

3. Methodology/Management

Overall development and program management will be the responsiblity of the FIA Marketing Division executive, utilizing the Committee and Task Force chairmen as plan coordinators.

4. Methodology/Finance

All program elements will be borne financially by domestic industry companies. In some cases, however, FIA may initially (during development phases) underwrite costs. For government-assisted research programs, FIA would bear no out-of-pocket expenses.

5. Timetable and Check Points

Program concept will be generated within six months. From that point onward, each element will be executed sequentially. For example, marketing research and consumer product testing training can be developed and offered within a year. Targeted programs of consumer product education, possibly working in conjunction with retailers, will also be developed within a year. Timing of government-aided projects must be viewed independently.

6. Industry Benefits

Trade associations of other consumer product and service industries have assertively developed a coordinated program of consumer marketing and research training and information gathering. These skills are recognized as an essential ingredient in developing any company's or industry's competitive plan. Large companies and some mid-sized and smaller companies in the industry have invested in such information and in acquiring capabilities; however, they may be overlooked or avoided by other companies. Practical training and exposure will improve the professional level and competitive posture of the domestic industry. Information developed through government-assisted programs can also be used to educate consumers and support domestic producers.

7. Benefits Quantification

Most elements not strictly quantifiable. Opportunities for marketing research cost savings, following training, on a project by project basis within individual companies.

*Copyright

Marketing

C. Sales Management Training

1. Description and Rationale

Sales management is a multi-faceted profession of increasing complexity in the footwear industry, requiring not only on-the-job but total coverage classroom training in functions and responsibilities. FIA now offers an annual seminar of sales management skills training and will offer programs of training for field sales management and national/general sales management and larger companies in the industry have invested in sales training. Targeted, industry-specific full training has not been previously offered to domestic footwear manufacturers and suppliers.

2. Development Responsibilities

Program format(s) will be developed by FIA Marketing Training Task Force, Sales Management Committee, Training Director, and Marketing Division executive.

3. Methodology/Management

Overall development and management will be the responsibility of FIA Marketing Division executive using Training Director as liaison. It is anticipated that program content will be defined by industry and will be accomplished by FIA Training and outside professional sales management training consultant (similar to FIA's Supervisory Skills Training Program for first-line manufacturing supervisors).

4. Methodology/Finance

Initial program development will be underwritten by domestic manufacturers/suppliers on a subscription basis, or by direct registration fees.

5. Timetable and Check Points

Industry survey and report to identify training modules will require four to six months. Identification of consultant, funds generation, and initial module development will be approximately six to nine months from survey completion. Full program available to industry within twelve to fifteen months of survey completion.

6. Industry Benefits

Sales representatives in the footwear industry have available a complete professional training program in all aspects of selling--from setting goals to behavior management, and follow-up. This training is provided through National Shoe Travelers Association (NSTA), an allied industry trade association representing footwear field salesmen. Sales management skills, equally, can be professionalized for the industry, making domestic marketing efforts more successful. Finally, a dual approach of field management and general management will integrate people, marketing, and planning skill requirements.

7. Benefits Quantification

Most elements not strictly quantifiable. Elements lending themselves to quantification (post training) include: measurable reduction in selling costs/expenses, reduction in employee turnover.

Marketing

D. Strategic Planning at Corporate and Marketing Levels

1. Description and Rationale

FIA will offer training and consulting services in the values and techniques of corporate/marketing planning. Historically, many domestic footwear industry companies have been sales or manufacturing-centered. A true consumer or marketplace resource focus requires coordinated corporate and marketing plans. Consultation services may include a corporate/marketing planning audit for domestic producers, including approaches for setting up new business development programs, and a clearinghouse for consulting resources.

2. Development Responsibilities

Basic program development will be the responsibility of FIA Marketing Division executive and Marketing Steering Committee. Marketing Planning Task Force (reporting to Marketing Steering Committee) may be established. Targeted training audit approaches may be developed in conjunction with an outside professional.

3. Methodology/Management

FIA's Marketing Division executive will act as program coordinator. Outside professional or academic consultant may serve as liaison.

4. Methodology/Finance

All programs will be funded by industry members. Audit fee structure would be established to cover each business aspect.

5. Timetable and Check Points

Basic program planning will be undertaken immediately by the Marketing Steering Committee. Task Force will be formed and meet within three months. Outside consultant will be retained and targeted seminar programs offered within twelve months. Pilot planning audit program will be offered within six months of Task Force formation.

6. Industry Benefits

Moving toward greater corporate productivity and innovation, decision-making dynamism, and market orientation is difficult for any company, whatever the industry. Provision of training in long range planning and consulting support for domestic footwear companies will help streamline their operations and yield more consumer-focused activities. This will particularly benefit smaller, family directed organizations within the industry.

7. Benefits Quantification

Most elements not strictly quantifiable. If corporate/marketing planning audits are instituted, these could yield measurable improvements on a company by company basis.

Marketing

E. State-of-the-Art Sales and Marketing Techniques

1. Description and Rationale

FIA will offer a series of targeted seminars and training opportunities for domestic producers on available new sales and marketing technologies such as catalogs, direct response, inside selling, telemarketing, computer linking to retailers (automatic reorder/replenishment system). Company by company consulting services may also be offered.

2. Development Responsibilities

Development will be the responsibility of FIA Marketing Division executive, Training Director, Marketing Steering Committee and Marketing Training Task Force.

3. Methodology/Management

Overall development and management will be the responsiblity of FIA Marketing Division executive using Training Director as support. It is anticipated that one or more specialized outside consultant(s) will be involved.

4. Methodology/Finance

All program elements and/or consulting activity will be directly funded by industry members. This will be done either by seminar/training program registration fees or direct consultant payment.

5. Timetable and Check Points

Once identified by FIA Marketing Steering Committee and Marketing Training Task Force, consultant screening will be completed within three to six months. Initial training will begin within twelve months and a full consulting/training program will be available within eighteen months.

6. Industry Benefits

Recent marketing innovations require a battery of new skills: set-up, measuring effectiveness, training and compensation of personnel, meshing with existing methods. These techniques offer particular benefit to domestic producers and can result in increased sales and profits and reduced field selling expenditures (by permitting field sales personnel to concentrate on major accounts and develop new business).

7. Benefits Quantification

Company by company sales cost reduction/sales generation improvement using new techniques could be measured.

Marketing

F. Export Trading Assistance

1. Description and Rationale

FIA will develop an export trading program for the domestic footwear industry which may include a non-competitive product consortium (trading company), education, training, and information and coordinating participation in overseas trade shows or events. The domestic industry would benefit from a central point of export training and information. All the above activity assumes close liaison with appropriate offices in the Department of Commerce and other government agencies.

2. Development Responsibilities

FIA's Marketing and National Affairs Division will form an Export Opportunity Task Force (reporting to the Marketing Steering Committee and the National Affairs Steering Committee) to develop program elements along with Marketing Division executive.

3. Methodology/Management

FIA Marketing Division executive will act as program coordinator and will liaison with National Affairs Division director. Outside industry export consultant may serve as overall program administrator.

4. Methodology/Finance

All programs will be funded by the industry members. Participation at foreign trade shows will also be on a shared expense basis.

5. Timetable and Check Points

Planning can begin immediately by Marketing Steering Committee. Task Force will be formed and meet within three months. Industry (suppliers and manufacturers) will be surveyed as to current/desired level of export activity. Outside consultant will be retained and seminar programs offered within six to twelve months. Consortium will be organized within twelve to eighteen months. Participation in overseas trade shows will also begin immediately. Informational bulletin (already available) will broaden its coverage to include FIA activities.

6. Industry Benefits

Although foreign import quotas and duties have made exporting footwear difficult, some domestic companies have succeeded. By organizing a centralized program to take advantage of government programs, industry expertise and foreign marketing opportunities, FIA can help the domestic industry more efficiently use its production capacities and inherent product strengths.

7. Benefits Quantification

Particularly for companies beginning an export program, results are highly measurable. For companies already engaged in export, change in sales/profitability levels can be measured.

Marketing

G. Computer Software Specific to Footwear Industry

1. **Description and Rationale**

FIA will oversee development of universal computer marketing software specifically designed for domestic footwear producers and suppliers. Such areas as order entry, merchandising, territory analysis, sales forecasting, production and sales flow, budgeting, etc., will be covered, style/pricing/outlet analysis, will be considered. This has been done by some companies. A central software clearinghouse, planning group, and integrated program would be very cost and time-effective for the industry, particularly smaller and medium-sized companies.

2. **Development Responsibilities**

Development will be the responsibility of FIA Marketing Division executive and Marketing Steering Committee. An ad hoc Marketing Software Development Task Force may also be established.

3. **Methodology/Management**

FIA's Marketing Division executive will act as program coordinator. Outside professional consultant (and head of Marketing Software Development Task Force) may serve as liaison.

4. **Methodology/Finance**

Each software element will be underwritten by industry members prior to development. Additional revenue generation (from training and software sales) would reimburse original underwriters.

5. **Timetable and Check Points**

Planning will begin immediately by Marketing Steering Committee. Task Force will be formed and meet within three months. Pooled software needs will be identified by industry survey within nine months. Outside consultant will be retained and pilot software programs developed within fifteen to eighteen months.

6. **Industry Benefits**

More and more domestic footwear companies are developing their own computerized software for internal marketing planning and control. These software systems can be more cost-effective, efficient, and beneficial if a centralized, organized approach is used within the industry for their development. Software can also more easily integrate available consumer purchase data. Another dimension of the advantage this offers the domestic industry is more timely retailer response. There are now available to marketing management a broad range of software tools (research, product movement, financial databases, text, search, media, simulated test marketing, etc.) which can be adapted to footwear.

7. **Benefits Quantification**

Results will be difficult to measure on an overall basis; however, individual companies will derive measurable changes in cost efficiency, opportunities for increased sales due to more rapid analytical turn-around.

5 YEAR PLAN OF ACTION—MARKETING[1]

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE						BENEFITS
					85	86	87	88	89	90	
PRODUCT DESIGN	Training to produce domestic footwear stylists and line builders with authentic fashion sense, timeliness and CAD capability	FIA & Industry	FIA Task Force with Consultants & Academia (FIT, Parsons, etc.)	FIA & Industry	D	D	X	>	>	>	Improvement in design freshness and authenticity Shortening of lead time to get ideas to market
CONSUMER RESEARCH AND EDUCATION	Develop and train industry in use of systems for more effective consumer research										
	• Foot/Track	FIA & Industry	FIA Training Task Force with Consultants	FIA & Industry	X	>	>	>	>	>	Opportunity for savings in marketing costs through targeted sales efforts, more productive promotional programs, identification of new market opportunities.
	• Market research seminars	FIA & Industry	FIA Training Task Force with Consultants	FIA & Industry	X	>	>	>	>	>	
	• Focused consumer studies	FIA & Industry	FIA Training Task Force with Consultants	Government & Industry Grants	X	X	X	X	X	X	
SALES MANAGEMENT TRAINING	Develop generic footwear industry training program focused on sales management skills and functions	FIA & Industry	FIA Training Task Force with Academia	FIA & Industry plus possible Government or Private Grants							Enhanced skills of sales management plus shorter time period for achievement of management competence
	• Sales Management Skills Development (SMSD)				X	>	>	>	>	>	
	• SMSD Enhancements				D	D	X	>	>	>	
STRATEGIC PLANNING AT CORPORATE AND MARKETING LEVELS	Develop strategic planning skills at senior levels of industry management	FIA as catalyst Selected Business Schools and Consultants	FIA Senior Task Force identify programs from Academia/ Consultancies Create seminars to inform management and encourage use with key executives	FIA & Industry	X	X	>	>	>	>	Improved senior management ability to guide business strategies

[1] D = Under Development
X = Operational
> = Ongoing Activity

[2] MAT = % savings in factory selling price
LAB = % savings in factory selling price
O' HEAD = % savings in factory selling price

QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. is 150 days from concept to delivery

5 YEAR PLAN OF ACTION—MARKETING *Continued*

BASIC COMPONENTS	OBJECTIVE OF WORK	RESPONSIBILITY	MANAGEMENT	FINANCING	TIMETABLE 85	86	87	88	89	90	BENEFITS
STATE-OF-THE-ART SALES AND MARKETING TECHNIQUES	Create industry awareness of new and developing sales and marketing technologies such as: • Direct Response • Catalog • Telemarketing • Computer to computer stock replenishment • In and outbound telephone sales	FIA & Industry	FIA Marketing Steering Committee with Consultants and FIA Task Forces where appropriate Close liaison with retail associations	FIA & Industry	X	X	X	X	X	X	Sales increases through better use of available distribution channels and methodologies
EXPORT TRADING ASSISTANCE	Create industry-wide awareness of export opportunities and provide training on how to export effectively • Information flow • Trading consortia • Education/Training	FIA & Industry plus Government Agencies	FIA Task Force	FIA & Industry plus possible Government (TAA) Grants	X	X	X	X	X	X	Increased sales
COMPUTER SOFTWARE SPECIFIC TO FOOTWEAR	Creation of footwear specific software for key marketing applications to permit rapid, cost effective adoption of computer aided systems such as:	FIA & Industry	FIA Marketing Steering Committee plus FIA Task Forces and Consultants where appropriate	FIA & Industry plus possible Government (TAA) Grants							Decreased overhead costs, shorter lead time More accurate and timely customer service
	• Order entry and control				D	D	X	>	>	>	
	• Merchandising				D	D	X	>	>	>	
	• Forecasting				D	D	X	>	>	>	
	• Sales force management					D	X	>	>	>	

[1] D = Under Development
X = Operational
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[2] MAT = % savings in factory selling price
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O'HEAD = % savings in factory selling price

QUALITY + = improvement in product quality
TIME = # of days reduction in cycle time for bringing a new product to market. Assumes current average cycle time for new product requiring new last, new patterns, new heels, etc. is 150 days from concept to delivery.

Mr. **Murray**. It has enabled us to compete. Our smaller, poorly financed companies are the ones who more need the help because bankers won't look at them with the rising imports.

Senator **Moynihan**. Mr. Murray, my time is running out. There is the prospect that this work is open to truly technological change?

Mr. **Murray**. Absolutely.

Senator **Moynihan**. And such that it would not be labor-intensive, in that sense, indefinitely?

Mr. **Murray**. That is absolutely correct.

Senator **Moynihan**. That, given some time to hold on, you might obtain a competitive edge over people who now ship out of different factories in Central Europe and on the Asian perimeter?

Mr. **Murray**. We have hung on this long. We can do it with some help.

Senator **Moynihan**. I think that is important, and I wish we could get our Government to ask such questions. Mr. Chairman, I thank you and Mr. Murray.

The **Chairman**. I am reminded of that old story of the farmer who was asked what he would do if he inherited one million dollars. He said that he guessed he would just put it back into farming until he had lost it all, but—[Laughter.]

But from what you tell me, you are going to be competitive. I am delighted to hear that you are hanging in there.

The next Senator to present questions will be Senator Daschle.

Senator **Daschle**. Thank you, Mr. Chairman. I have been concerned about the ramifications of this bill as it relates to agriculture ever since the bill was introduced years ago.

I have been concerned about it to the point where, when it was brought up in the House, I voted against it; but I realize that changes have been introduced and incorporated in this version.

The changes in particular that interest me are those related to retaliation and the ability on the part of the President to compensate for the loss of export, should that be necessary.

My question of the panel, for anyone who cares to answer it is, first: As succinctly as possible, will you describe for me your argument for how this program can serve to reduce or thwart retaliation?

And second: What in your estimation will it cost?

Mr. **Whittington**. Senator, we have had a study—this group has had a study—by an economic consultant that looked into that, and the result that they came up with was that retaliation would be virtually nil. The market for exports of raw agricultural products from this country to the world is based primarily on price.

Senator **Daschle**. You misunderstand my question, Mr. Whittington. What I am asking, in the limited time that I have is: If there would be the threat of retaliation, you argue that the utilization of a special fund to compensate for the loss of exports addresses or thwarts the retaliation, should it exist.

Mr. **Whittington**. Now, I am not competent to answer that one. I was just trying to say that I don't think it would have any effect on agricultural exports from this country.

For example, when we lowered cotton prices last year, our exports tripled of United States cotton. It had nothing to do with retaliation or anything else. We put our prices down, and they bought it.

Senator **Daschle**. Go ahead, Mr. Roboz.

Mr. **Roboz**. Let me respond, if I may. Unlike Ambassador Yeutter, I feel that the 10 percent tariff decrease that we are recommending is more than sufficient when you consider the fact that the top four countries who supply textiles and apparel to the United States could not be included in any retaliation because they are already covered by quotas and growth rates negotiated by Mr. Yeutter and his staff.

Do you follow me? So, that two percent total number would be available for the rest of the world; and those top four countries represent—if I remember right—over 60 percent of the total exports to the United States.

So, it is a rather meaningful sum that we are talking about here, not a mere bagatelle.

There are other issues, I think, that you should consider in the terms of retaliation: the issue being retaliate against their best export market? We take more textiles and apparel than any other market.

You know, I am not used to retaliating against my best customer. I found that to be a very chancey proposition.

Senator **Daschle**. The problem that I have in your answer is that you argue apparently universally that there will not be any retaliation; but then you argue for the need for a provision in this year's bill which would set up a special fund for the loss of exports due to retaliation.

Why is this provision necessary if, in your view, there won't be any retaliation to begin with?

Mr. **Roboz**. Sir, in my own personal opinion, there is no certainty on anything, especially in this area. We are just saying that if there is a fund that is created which is more than sufficient to take care of that retaliation, we are trying to cover that base.

I don't think anybody in good conscience can say there will be absolutely no retaliation. We are telling you that it is highly unlikely.

Ms. **Dubrow**. May I address the question from another area?

Senator **Daschle**. Yes.

Ms. **Dubrow**. You know, when the MFAs were being renegotiated, the European Community announced that they were going to roll back their quotas. They said they had had enough of it; they didn't like the quota level they had, and they did it.

And there was no retaliation. As a matter of fact, their trade deficit went down 13 percent while ours was going up 90 percent.

None of the countries that were targets of the EC decision to roll back their quotas on textile and apparel showed any retaliation on agriculture.

I don't think the bill, in giving the President the right to cut the tariffs, deals with agriculture. I think it deals with countries that think they are being hurt by our quota level—on the 1986 quota level—and that in that case, if the country can prove that in any product they feel they have been discriminated against, the President may reduce the tariff up to 10 percent.

In agriculture, we have a study that indicates that there will be no retaliation; and I think you ought to know, Senator Daschle, coming from South Dakota, that we have the active support of the National Farmers Union, the National Farm Organization, the American Agricultural Movement, and several other related organizations which are concerned and are supporting our bill because they recognize one thing: that if we are the victims of this kind of unfair competition, unfair import laws, then they are next in line.

They are going to be looking for some help, too. I think they are beginning to understand that a country buys the products it wants based on the price.

And if China sells its cotton less than the American cotton price, Japan and all the other countries that supposedly buy from us will buy from the country that charges them less.

It seems to me, under those circumstances, there is a responsibility on the part of the Congress of the United States to recognize that we are calling for fair trade, that we are giving more than half of our market away, and that the American worker has a right to say to the Congress of the United States: We are not being unfair; we are being overly generous.

And the Congress of the United States must support the farm workers, the textile workers, and any other workers in terms of protecting their right to work in this country.

The CHAIRMAN. Thank you very much. Your time has expired. Senator Bradley?

Senator BRADLEY. Thank you very much, Mr. Chairman.

I would like to ask Mr. Roboz a question if I could. In the bill there is a provision that says the Secretary of Commerce, at the end of 10 years, would review the textile apparel import policy. Now, if the bill passed, what specific changes would you make in the way that you now do business?

Mr. ROBOZ. I can't tell you how happy I am that you asked that question because we had a round on that, and I know we were short of time, and I didn't want to interject.

There is one irreducible element that we businessmen need, and that is confidence to invest in the future of our companies.

We, in my company, are very close to a determination whether we are going to continue manufacturing in this country or whether we, too, will become importers.

We employ in my company about 4,500 people, and that decision is imminent. If this rapid velocity of growth continues that has occurred in the last five years, I can tell you what our decision will be.

And if we see that our Administration has indeed consigned this industry—as I have heard some Senators say that maybe there shouldn't be an apparel industry in this country—we as capitalists must then take note of that fact and leave to you the problem of my 4,500 people because I can no longer answer to my stockholders at that point.

And that is the basic importance of this bill.

Senator BRADLEY. Could I repeat my question? What changes would you make in the way that you now do business if the bill passed?

I understand that if the bill doesn't pass, you have a variety of threats which endanger your business. But what I am suggesting or asking is: What changes would you make in the way you now do business? What specific investments would you make that you would not make absent this bill?

Mr. ROBOZ. Instead of building a second factory in Costa Rica, I would build a second factory in either Tennessee, Georgia, or North Carolina. Is that specific enough?

Senator BRADLEY. You specifically would build an additional factory?

Mr. ROBOZ. Yes, sir.

Senator BRADLEY. And how many people would that employ?

Mr. ROBOZ. I think on our long-range plan, our capacities would require an additional 300 to 500 people.

Senator BRADLEY. And in what period of time would it take you to build the factory and employ an additional 300 to 500 people? By what date?

Mr. ROBOZ. I, up and running, everybody fully trained and everything?

Senator BRADLEY. That is correct.

Mr. ROBOZ. You are asking how capable a manager I am. But I would say 18 months or two years from an empty lot to a finished factory up and running.

Senator BRADLEY. You are saying if this bill passed in 1987 that by 1989 you would have built another plant and employed another 500 people?

Mr. ROBOZ. Yes, sir. Which, if you will think about it, is more than 10 percent of my current employment. Of course, that is not the only thing I would do. There is equipment becoming available to our industry that we would invest in.

Senator BRADLEY. So you would change your investment pattern by buying new equipment. How much new investment would you make in dollar terms?

Mr. ROBOZ. In my company?

Senator BRADLEY. Yes.

Mr. ROBOZ. Well, let's see. We are about a $125 million a year company. We would invest in capital equipment that was available probably an additional $500,000 to a million dollars a year.

Senator BRADLEY. $500,000 to a million dollars a year additional?

Mr. ROBOZ. Yes. As opposed to using cheap labor overseas where highly automated equipment does not make sense.

Senator BRADLEY. Could you answer one last question? When the end of the 10-year period comes, and the Commerce Secretary reviews import policy, do you think it would be a legitimate part of the review to look specifically at the additional amount of investment that was made and the additional number of jobs that were or were not created? Should future import policy be based on whether there was additional investment, how much, and whether there was additional employment and how much?

Mr. ROBOZ. Absolutely, yes.

Senator BRADLEY. Thank you very much.

The CHAIRMAN. Senator Mitchell.

Senator MITCHELL. Thank you, Mr. Chairman. I apologize for being late. I would like to take a portion of my 5-minutes to make a brief statement and ask that my full statement be placed in the record and then I will have a couple of questions.

The CHAIRMAN. Of course.

Senator MITCHELL. Mr. Chairman, I strongly support this legislation as a modest and realistic effort to moderate import growth in the textile, apparel and footwear industries. Now in this debate it must be remembered that international trade in textiles and apparel does not operate in anything remotely approaching a free market. It is fine for opponents of this legislation to repeat the slogan of free trade as though it was some sort of economic salvation, but that slogan has little relevance in the real world where every government aggressively manages trade in textile, apparel and footwear products. The major exporting and importing nations have operated for many years under a program which controls the growth of imports. I refer, of course, to the multifiber arrangement in textiles.

In addition, almost all of the major exporting nations pursue policies and programs to establish, promote and protect their textile, apparel and footwear exporting industries, and it is within the framework of this pervasive government control over textile, apparel and footwear trade that this legislation must be considered. This is of critical importance to my State of Maine where thousands of jobs have been lost in these industries in just the last few years. As the largest footwear-producing State in the nation, the demise of that industry has been particularly painful for the people of Maine.

In the last three years, more than 40 percent of the men and women working in those footwear facilities have lost their jobs.

Not many years ago, Mr. Chairman, there were over 27,000 people employed in Maine in the manufacture of shoes. By 1983, that was 17,000 and now it is about 10,000 and dropping fast as plants close on a regular basis. And the same holds true for the textile and apparel industry. Just a few months ago, the entire State was adversely affected by the simultaneous closing of three apparel manufacturing plants which employ 1100 people. I should say, which employed 1100 people. Suddenly, men and women who had worked for decades in those plants were without jobs and without hope for the future. And this legislation is an attempt to deal with this in a very, very modest way. So I urge adoption of this bill.

In my time remaining, I would like to ask Mr. Murray a question. Now there is quite a lot of attention focused on the nonrubber footwear industry's competitiveness problems, and there is a lingering perception by some that the industry has made few attempts to make the kind of investments in technology and other advancements necessary to regain its competitiveness. And I would like to know what your response is to those who make that contention.

Mr. MURRAY. Well, I think they are not informed; this industry has shrunk so much in the last 10 years that the survivors have used every means at their disposal to survive. I can speak for my company. Last year alone, we spent $1 million of capital expenditure only on high tech equipment that is available: computer-assisted CAD/CAM systems, direct inject soling methods. And I am speaking for one company. I think they would be misinformed.

Senator **Mitchell**. As you well know, this bill concedes 80 percent of the market to footwear imports and ensures that low cost footwear imports will not be reduced in volume. And yet the argument has been made, and I expect will be made here by other witnesses, that this bill is bad for consumers because cheap footwear imports are good for the consumer. I would like to ask you to comment on that argument.

Mr. **Murray**. Well first of all, the bill does just that. It specifically leaves untouched at current levels the amount of the low-priced footwear that can come in.

Number two, this same plan that I mentioned earlier has shown that we can come within a 5 or 10 percent difference of imported footwear in a short period of time and, of course, with our plants here, a retailer will overlook that kind of a spread to get quicker deliveries and not have to order six months out.

Senator **Mitchell**. Why have you chosen to pursue a legislative remedy to the problems of your industry?

Mr. **Murray**. If I chose, as representing our association, to go through another section 201 case I would be lynched before I got the words out of my mouth. We spent millions of dollars trying to do that, and we have won the battle and lost the war.

Senator **Mitchell**. The Administration's handling of the footwear case has rendered that section of the law meaningless. And I must say if you did recommend it you would deserve to be lynched, and if your lawyers recommended it to you they would be guilty of malpractice. [Laughter.]

Mr. **Murray**. I must agree.

Senator **Mitchell**. Well my time is up. Thank you very much.

The **Chairman**. Thank you.

Are there other questions?

Senator **Packwood**. Let me ask Mr. Murray, if I might, just one question. You mentioned you bought some CAD/CAM equipment.

Mr. **Murray**. Yes, sir.

Senator **Packwood**. Good equipment?

Mr. **Murray**. Excellent.

Senator **Packwood**. I have a company in Oregon called Mentor Graphics. It started in 1981. It makes CAD/CAM equipment. It had zero sales in 1981 and it now has about 600 employees. It had $180 million of sales last year, of which exactly half were sales overseas. How does a company like that manage to compete against low wage overseas employment? How can a company start up in a field, compete with 16 cents an hour Chinese labor that has been mentioned here earlier and do that not only well in the United States market but overseas?

Mr. **Murray**. Technology.

Senator **Packwood**. The technology?

Mr. **Murray**. Yes. I do not know that company, but the CAD/CAM industry, all of the companies I know, are very, very successful because they have in this country developed that CAD/CAM technology.

Senator **Packwood**. So it is not wage differential that is critical to them?

Mr. **Murray**. No. Our industry needs capital investment and technological advancement.

Senator PACKWOOD. And with capital investment and technological advances you can compete against much lower wage labor who are not as advanced technologically.

Mr. MURRAY. Certainly.

Senator PACKWOOD. Thank you. I have no further questions, Mr. Chairman.

The CHAIRMAN. Are there further questions?

[No response.]

The CHAIRMAN. If not, we have another panel. And thank you very much for your testimony. We are appreciative of it. And we are taking for the record that plan of yours, Mr. Murray. We are delighted to have it.

The next panel is Ms. Julia Hughes, who is Co-Chairman of the Textile and Apparel Group of the American Association of Exporters and Importers; Mrs. Doreen Brown, the President, Consumers for World Trade; Mr. Carl Davis, the East Coast Counsel for Nike; Mr. Philip Lelli, who is the Port Liaison for the International Longshoremen and Warehousemen Union; and Mr. Martin Tandler, the President and CEO of Tandler Textile, Inc.

And the first witness will be Ms. Julia Hughes. Ms. Hughes, would you proceed, please?

STATEMENT OF JULIA K. HUGHES, COCHAIRMAN, TEXTILE AND APPAREL GROUP OF THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS, WASHINGTON, DC

Ms. HUGHES. Thank you, Mr. Chairman.

Mr. Chairman, member of the committee, my name is Julia K. Hughes. I am the Washington trade representative of the Associated Merchandise Corporation. I appear before you today on behalf of the Textile and Apparel Group of the American Association of Exporters and Importers to testify in opposition to S. 549, the Textile and Apparel Trade Act of 1987.

AAEI TAG is comprised of over 100 textile and apparel importers located throughout the United States. AAEI TAG is also a member of the Retail Industry Trade Action Coalition, RITAC, which will be submitting a written statement in opposition to this legislation.

TAG has testified on many occasions before Congress on the dangers of yielding to domestic textile and apparel industry pressure for greater import protection. Thirty years since the beginning of protection the industry has not disappeared but we are still hearing the same tired, old refrain. The industry has not only survived but is thriving and prosperous. The textile-producing States have lower unemployment rates than the rest of the country and, in fact, we are experiencing labor shortages in the textile industry.

In light of the healthy competitive state of the domestic textile and apparel industries, and the more than 30 years of import protection, the committee should be considering the reasons why existing protection should be phased out.

It is shocking that the domestic industry is in fact asking for even greater protection. What they are truly seeking is a guaranteed share of the market and protective profits and perpertuity without having to prove their case and without taking into account the interest of other industries and the interest of the consumer.

Last year, the domestic and apparel industries used their same discredited arguments to urge members to override the President's veto of H.R. 1562. Even though the veto override failed by a narrow margin, the domestic industries were successful in using the legislative threat to force the Administration to negotiate an expanded multi-fiber arrangement and highly restrictive bilateral agreements. This is at the same time the domestic industries were enjoying record profits, peak capacity utilization, productivity increases and employment gains.

The increased restrictions resulting from these agreements and the industry's high level of performance are among the factors creating inflationary pressures in the apparel market.

Clothing prices increased 4.6 percent in the first quarter of 1987, the largest increase since the Labor Department began keeping these figures in 1977.

Mr. Chairman, we have prepared a packet of clippings from the Textile and Apparel Trade Press over the last eight months documenting the positive state of the domestic textile and apparel industries. I ask the committee's permission to have these clippings included in the record of this hearing.

The CHAIRMAN. Without objection, that will be done.

Ms. HUGHES. Thank you.

Ms. HUGHES. Nonetheless, this year, despite record profits and the continuation of labor and fabric shortages, the domestic industries once again are back at the Congressional well with a new textile bill. They argue this bill is moderate, complies with the international rules, and approximates the growth and demand in the U.S. market.

The domestic industries support their claims with questionable statistical and other economic material. The ITC has recently confirmed that, in fact, the import penetration level acclaimed by the domestic industries is grossly overstated.

We also believe that the domestic industries' estimate of the rate of growth in domestic consumption is vastly understated.

We will provide as a separate attachment to our testimony an explanation of why we believe that the domestic industries' estimate of growth in consumption and import penetration levels are in error.

S. 549 is one of the most highly protectionist pieces of legislation ever introduced. It would destroy the MFA and existing bilateral agreements. It would violate the GATT, provoke serious retaliation by rolling back imports of previously unrestrained supplies, such as the EC and Canada, destroy any hope for success in the Uruguay Round, and in the process would raise consumer cost and cause a loss of 52,000 jobs in the retail sector alone.

While we believe that fashion and value dictate the need to purchase from foreign rather than domestic suppliers at certain times, recently more retailers have been increasing their purchases from domestic suppliers.

Speaking solely on behalf of my company, AMC, we have substantially increased our domestic purchases. In 1986, the increase was 44 percent, and we project for this year an increase of 50 percent.

This trend is important, and we will continue to buy domestically whenever it is feasible. However, we believe that imports always serve an important function in the domestic market. Imports provide variety, value and competition. These factors continue to make the U.S. market the most dynamic in the world.

S. 549 is a prime example of the egregious type of special interest sectoral legislation that is completely at odds with Congressional efforts to enact the omnibus trade legislation intended to promote the competitiveness of U.S. industries.

AAEI TAG urges committee members to resist pressures for additional permanent protection in the form of unilateral textile and apparel quotas and instead to continue your efforts to develop reasonable generic responses to our trade problems. Thank you.

[The prepared statement of Ms. Hughes and newspaper articles follow:]

STATEMENT OF
THE TEXTILE AND APPAREL GROUP OF
THE AMERICAN ASSOCIATION OF EXPORTERS
AND IMPORTERS (AAEI-TAG)

This statement is submitted on behalf of the Textile and Apparel Group of the American Association of Exporters and Importers (AAEI-TAG) in opposition to S. 549, the Textile and Apparel Trade Act of 1987. AAEI-TAG is comprised of over 100 textile and apparel importers and retailers located throughout the United States. A list of AAEI-TAG members is attached.

Since the early 1960's, AAEI-TAG has testified on many occasions before Congress on the dangers of yielding to domestic textile and apparel industry pressure for greater import protection. The textile and apparel lobby's arguments in support of textile quota legislation have been the same for decades -- rising imports, inability to compete, loss of jobs and a doomed industry.

Last year, with production booming, prices and shortages increasing, the domestic textile and apparel industries used their same discredited arguments to urge members to override the President's veto of the Jenkins-Thurmond textile bill. Even though the veto override failed, the domestic industries were successful in using the legislative threat to force the Administration to negotiate an expanded Multifiber Arrangement (MFA) and highly restrictive bilateral agreements.

Nonetheless, this year, despite record profits and serious shortages of fabric and labor, the domestic industries once again are back at the Congressional well with a new textile quota bill. They argue this new bill is moderate, complies with international rules and approximates the growth in demand in the U.S. market. The domestic industries also claim that imports have climbed to nearly 50 percent of domestic consumption. Nothing could be further from the truth.

I. THE TEXTILE AND APPAREL INDUSTRIES ARE CURRENTLY AMONG THE MOST HIGHLY PROTECTED INDUSTRIES IN THE U.S. AND ADDITIONAL PROTECTION IS UNWARRANTED.

The textile and apparel industries are currently the most highly protected industries in the United States. Additional import protection is totally unwarranted. Not only do these industries benefit from hundreds of quotas and high tariffs, they have the added benefit of highly complex and burdensome Customs enforcement policies and regulations.

A. Tariff Protection

Tariff rates on textiles and apparel average 18.3 percent, almost five times the rate of approximately 3.6 percent for all other dutiable products. Tariffs on many textile and apparel articles have also been exempted from significant tariff reductions in the most recent multilateral trade round. Moreover, unlike most other products, textiles and apparel are excluded from major tariff preference programs such as the Generalized System of Preferences and the Caribbean Basin Initiative.

B. Import Restraints

The United States is currently a party to 39 bilateral textile agreements and the Multifiber Arrangement. Pursuant to these agreements, the United States maintains nearly 1,400 quotas of various types which control the vast majority of U.S. textile and apparel imports. These include 117 new quotas established during the past year alone. The Administration has significantly tightened the regulation of textile and apparel imports under U.S. bilateral agreements and the MFA. Of major importance was the negotiation in July 1986 of an extension to the MFA which broadened the MFA's coverage to include products of silk blends, linen, ramie, jute and other previously unregulated fibers. This closed what the U.S. industry claimed was a major "loophole" in the MFA's coverage.

At the same time, the Reagan Administration successfully renegotiated more restrictive bilateral agreements with Hong Kong, Korea, and Taiwan, bringing silk blends, linen, ramie and other new fibers within the MFA's coverage and limiting overall growth of trade to less than 1 percent per year. Also as a result of recent negotiations, the United States currently has group or aggregate restraints limiting textile and apparel trade with almost all the major and mid-level developing country textile suppliers to the United States. The United States also imposes restraints on important specific categories of textile and apparel trade from all developing country suppliers.

C. Customs Enforcement

In addition to existing import restraints, the Commerce Department and the U.S. Customs Service have imposed a byzantine set of enforcement policies and regulations which have the effect of further restricting imports. These regulations are being constantly revised and more tightly enforced. In fact as textile importers and retailers, we believe that under the current regime, Custom's enforcement policies in many instances have risen to the level of unwarranted harrassment.

II. THE TEXTILE AND APPAREL INDUSTRIES ARE HEALTHY AND HIGHLY COMPETITIVE AND DO NOT REQUIRE ADDITIONAL PROTECTION

While enjoying an extraordinarily high level of import protection over the last 30 years, the textile and apparel industries have become healthy and competitive. The question we should be debating before the Congress is why industries as profitable as the domestic textile and apparel industries are not ready to phase out import protection.

A. The Textile and Apparel Industries Are Outperforming the Manufacturing Sector As a Whole

It is hard to believe that the textile and apparel industries are asking for greater import protection when they are out performing the rest of the economy. The domestic industries cannot dismiss this fact as merely a cyclical phenomenon. According to ATMI's own statistics, the domestic industries have shown profits annually for each of the last 35 years.

The positive economic trends in both the textile and apparel industries are irrefutable:

- Between the first quarter of 1985 and the first quarter of 1987, textile production increased 20 percent, compared to 5 percent for manufacturing generally. (Federal Reserve Board). Over a longer period, first quarter 1982-1987, U.S. textile production increased by 32 percent and apparel production increased by 19 percent. In fact, the Federal Reserve indexes of textile and apparel production in 1986 were at their highest levels since 1972. (Charts 1 and 2).
- Textile and apparel productivity also exceeded productivity for manufacturing as a whole. ATMI reports textile productivity increased at an average of 5.6 percent annually from 1975-85, and apparel, 2.7 percent compared to 2.4 percent for manufacturing as a whole.
- Capacity utilization in the textile industry has been increasing steadily from 78 percent in the first quarter of 1985 to 92 percent in the first quarter of 1987 and 98 percent in April of this year (Federal Reserve Board). Apparel capacity utilization remained strong at 87 percent in 1985 and 88 percent in 1986, climbing still further to 90 percent in the first quarter of 1987 (Federal Reserve Board). For manufacturing as a whole, capacity utilization reached only 80 percent in both 1985 and 1986 (Table 1, Charts 3 and 4).
- The increase in capacity utilization is not the result of reduced capacity. The Federal Reserve reports that capacity has increased steadily since 1972 and reached an all-time high during 1986 and 1987. The textile index

stood at 127 in 1986, 20 points higher than the 1972 level (Charts 5 and 6).

- The value of domestic textile mill shipments increased 2.5 percent from 1985-86 (Department of Commerce). Over the same period, the value of textile exports jumped 13 percent and apparel exports 19 percent (Department of Commerce).

- Industry profits also have shown dramatic increases since 1985, and industry analysts expect the strong performance to continue throughout 1987 and into 1988. Textile industry profits in 1986 were 46 percent higher than in 1985, compared to a decline of 6 percent for all manufacturing (Department of Commerce). Profits after taxes as a percent of net sales almost doubled from 1985-86; profits as a percent of equity were 69 percent higher over the same period (*Ibid.*) ATMI's own information shows 1986 profitability at its highest level since 1964 (Chart accompanying Testimony of Robert G. Laidlaw before the House Ways and Means Committee on H.R. 1154 of May 7, 1987). Industry analysts expect a further 20 percent increase in profits for 1987 (Kurt Salmon Associates; Goldman Sachs, "Monthly").

The evidence of the health of the domestic industries is undeniable and the domestic textile and apparel industries know it. Their attempts to exaggerate the impact of imports on the U.S. market by manipulating statistics have been exposed by the House Ways and Means Subcommittee on Trade. The U.S. International Trade Commission confirmed that the Government's measures of import penetration, rather than the domestic industries', more accurately reflect conditions in the domestic market.

B. Factors Contributing to Domestic Industries' Competitiveness

The highly competitive state of the domestic textile and apparel industries is due to a variety of factors. The growth in productivity in the textile mill sector is well above that for manufacturing generally, and an unprecedented series of mergers, acquisitions and divestitures have left a more concentrated, profitable and efficient industry.

The apparel sector has moved to improve its competitive position through a program called "quick response," which consists of close collaboration between the retailer, U.S. apparel manufacturer, and textile supplier and is designed to lower costs and improve overall efficiency by providing faster deliveries and reducing inventories. A recent OTA study noted that greater implementation of "Quick Response" technologies could reduce textile and apparel suppliers' and retailers' costs by $12.5 billion. (Office of Technology Assessment, The U.S. Textile and Apparel Industry: A Revolution in Progress, pp. 24 and 27).

Other factors also have improved the competitiveness of the domestic industries. These include the decline in the value of the dollar, particularly vis-a-vis Japan and Europe, but also with respect to Taiwan; the decline in cotton prices; and recent changes in the tax laws.

C. Employment Trends Are Healthy

There is no basis for the domestic textile and apparel industries' argument that rising imports are the primary cause of textile and apparel job losses.

Textile employment (seasonally adjusted) increased by 6,000 from January to June 1987; the level of textile employment in June 1987 was 3.4 percent higher than in June 1986 (Bureau of Labor Statistics). This positive national employment picture extends to the key textile states. Between May 1986 and May 1987, textile employment in the 8 states accounting for three quarters of national textile employment increased by 17,100, or by 3.2 percent (Table 2).

Nationally, apparel employment has stablized at just over 1.1 million during the past two years (Bureau of Labor Statistics).

Apparel employment in North Carolina increased by 2,700 in May 1987 compared to May 1986; apparel employment in California increased by 3,600 over the same period (Bureau of Labor Statistics). (Daily News Record, 12/31/86, 4/14/87 and 7/16/87). New and expanded textile and apparel operations in South Carolina are expected to increase employment by 2,242. In fact the employment picture in South Carolina is so strong that some apparel producers there are actually experiencing worker shortages. (Daily News Record, 11/25/86)

The major causes of the decline in employment that the domestic industries have experienced in recent years are new technology and automation which have resulted in strong productivity gains. According to the OTA study, between 1972 and 1984, 500,000 textile and apparel jobs were lost to automation and improvements in productivity alone (OTA, p.7).

Moreover, those textile and apparel workers that have lost jobs as a result of automation and productivity gains have not been confronted with a stagnant job market. In the key textile and apparel states, increases in employment in the manufacturing wholesale and retail trade and services sectors have far exceeded declines in textile and apparel employment (Table 3).

D. Additional Import Protection Would Hurt Segments of the Domestic Textile and Apparel Industries

The tight supply situation that exists in the U.S. market for fabric and yarn is well documented. Virtually all fabrics and most notably gray goods including printcloth, sheetings, and sateens, have been in short supply since last summer; substantial price increases and new investment to increase domestic production have been the result (Daily News Record, 9/26/86; 10/6/86). This pattern of shortages has continued into 1987, with many mills reporting sold out positions on basic apparel gray fabrics through December.

The proposed new textile bill would limit all fabric imports, including imports of the apparel fabrics and yarns that are simply not available in sufficient quantities in the U.S. Limiting U.S. apparel producers' access to foreign fabrics and yarn needed to meet tight U.S. supply or specific production requirements will weaken their competitive position and their overall strength. Limitations on yarn and fabric imports even could be harmful to those domestic mills that support the textile bill, but who at the same time are major importers of yarns and fabrics.

III. S. 549 WOULD REDUCE THE FLEXIBILITY OF IMPORTERS AND RETAILERS TO MEET CHANGING CONSUMER DEMAND

Limiting import growth to 1 percent per year on a category-by-category basis would make it nearly impossible for retailers to respond to frequent changes in consumer demand. For most products, cyclical swings in U.S. consumer demand require far more flexibility in supply than a 1 percent growth limit would permit. For example, consumption of cotton sweaters increased at an average annual rate of 6.5 percent during 1980-85 with domestic production increasing faster than imports. Examples of only a few major product categories where annual consumption growth exceeded 1 percent during 1980-85 include woman's shirts and blouses (3.1 percent), trousers, slacks and shorts (3.6 percent), men's shirts (10.6 percent), men's and boys suit-type coats (4.2 percent).

Even within any one individual product category, year-to-year changes in demand require flexibility in supply from both domestic and foreign sources that exceeds 1 percent. Wide swings in demand are common in the textile and apparel markets but could not be accommodated under S. 549. Categories which saw declining imports during 1986 would be particularly hard hit. These products would be unable to return to earlier import levels when consumer demand increases for these products.

IV. S.549 WOULD INCREASE CONSUMER COSTS SUBSTANTIALLY AND CAUSE A LOSS OF 52,000 RETAIL JOBS

International Business and Economic Research Corporation (IBERC) has estimated that S. 549 would cost textile, apparel and footwear consumers $10 billion a year at retail--a 19 percent increase in the cost consumers already pay for tariff and MFA protection of the industries (IBERC). Low income consumers will be hardest hit by the resulting price increases, ranging from 2 to 10 percent, and the scarcity of less expensive apparel and footwear (IBERC).

S. 549 will cause the loss of over 52,000 retail jobs as a result of reduced spending by consumers on textile and apparel products and footwear whose prices would be inflated by the legislation (IBERC). In fact, 5,700 more jobs will be lost in the retail sector than would be protected in the manufacturing sector (IBERC). S. 549 would therefore strike directly at one of the strongest job-generating sectors of the U.S. economy -- the retailing industry.

But S. 549 will not stop at the retail sector--it will also cause the loss across the country of thousands of other import-related jobs--importers, port services, customs brokers, freight forwarders, inland transportation, banks and insurance companies, all of which depend on imports to support their businesses. Because S. 549 would effectively reduce U.S. exports either by retaliation from U.S. trading partners, or by reducing developing country growth and therefore demand for U.S. exports, jobs in these sectors also would be placed at risk.

V. S. 549 WOULD DESTROY THE MFA, VIOLATE EXISTING BILATERAL TEXTILE AGREEMENTS, THE GATT AND THE U.S.-ISRAEL FTA AND UNDERMINE CHANCES FOR MEANINGFUL PROGRESS IN THE URUGUAY ROUND

The MFA provides that safeguard measures are only to be applied to those products from those countries determined to be causing market disruption. The determination of market disruption must be based on the existence of serious damage as indicated by production, employment, productivity and investment of competing domestic manufacturers. S. 549 makes a blanket finding of serious injury for textile and textile products which does not meet the MFA requirements. This blanket finding is unsupportable because there are many important sectors of the domestic industry for which no plausible argument for domestic market disruption can be made. For example, the hosiery industry in 1986 had its best year ever and only a 4 percent import penetration ratio.

Other finished product sectors with very low import penetration ratios are carpeting (1.2 percent), and towels, sheets, pillowcases (2 percent). Moreover, important fabrics such as denim and woolen fabrics as well as printcloth are operating at such high levels of capacity as to defy any claim of import injury. Similarly cotton sweater producers, who increased their production by over 1000 percent between 1980 and 1985 and who further increased production in 1986 cannot reasonably claim injury.

Also, the bill fundamentally violates the MFA by imposing quotas unilaterally without prior consultations, which lie at the heart of the MFA system.

Bilaterally, to comply with the category quota limits imposed under the bill of no more than 1 percent global growth, the President would immediately be forced to: (1) honor existing bilateral agreements and roll back the trade of other suppliers, such as the EC, Canada, Israel and uncontrolled developing country suppliers; (2) violate the existing bilateral agreements; or (3) both violate existing agreements and roll back uncontrolled suppliers in violation of their MFA and GATT rights. The Commerce Department's testimony states that violation of the bilateral agreements would be nearly impossible to avoid under the bill.

S. 549 also is completely inconsistent with Article XIX of the GATT. It is premised on a sham declaration -- contradicted by increases in textile and apparel industry profits, capacity utilization, and employment -- that serious injury to the domestic textile and apparel industries exists without any specific finding that imports in each of the categories subject to restraint are causing injury. The bill's permanent quotas do not conform to the GATT's requirement that import relief be temporary and at the level necessary to remedy injury.

The bill also limits the President's authority to compensate the suppliers affected by the new quotas to a negligible level by providing authority to reduce textile and apparel tariffs to no less than 90 percent of the current MFN *ad valorem* rates and to phase the reduction in over a 5-year period. Under Article XIX, if no agreement on compensation is reached for trade losses suffered, the affected parties have the right to retaliate. Thus U.S. exports to the EC, Canada, and developing countries would be at an immediate risk of retaliation. Representatives of the EC already have informed the U.S. that they intend to take retaliatory measures if S. 549 is enacted.

The enactment of S. 549 would violate the United States' commitment under the Punta del Este Ministerial Declaration to refrain from imposing unjustified, unilateral import restrictions. The enactment of the bill will damage U.S. credibility in negotiating further trade liberalization in the Uruguay Round.

Additionally, the removal of the President's authority to reduce textile tariffs in the Uruguay Round or any other tariff negotiation below that contemplated under the bill removes an important source of bargaining leverage.

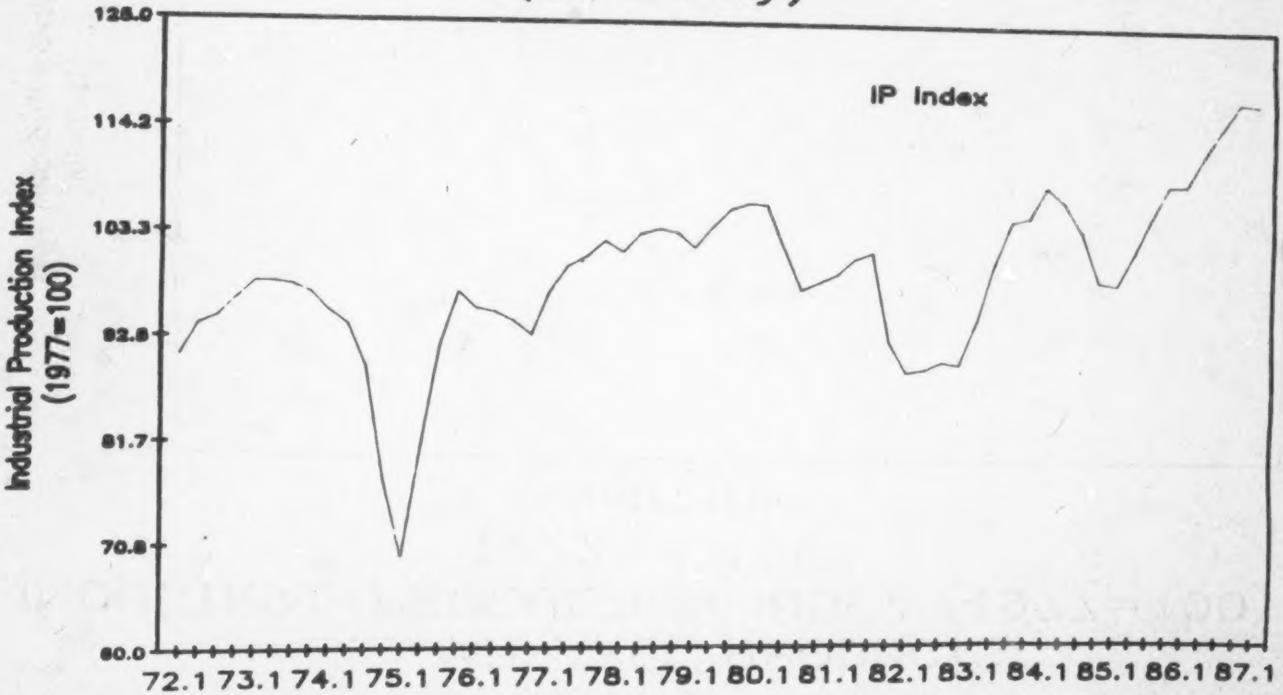
The prohibition on tariff cuts on textiles will also hinder the ability of the U.S. to successfully complete the negotiation of the U.S.-Canada bilateral free trade agreement (FTA), which contemplates a complete elimination of duties on all trade between the two countries to be phased in over a period of years. The provision against tariff reductions on textiles in the bill means that the President would be denied the authority to include textiles within the terms of the FTA.

The bill would also violate the terms of the U.S.-Israel Free Trade Agreement which prohibits the unilateral imposition of quotas.

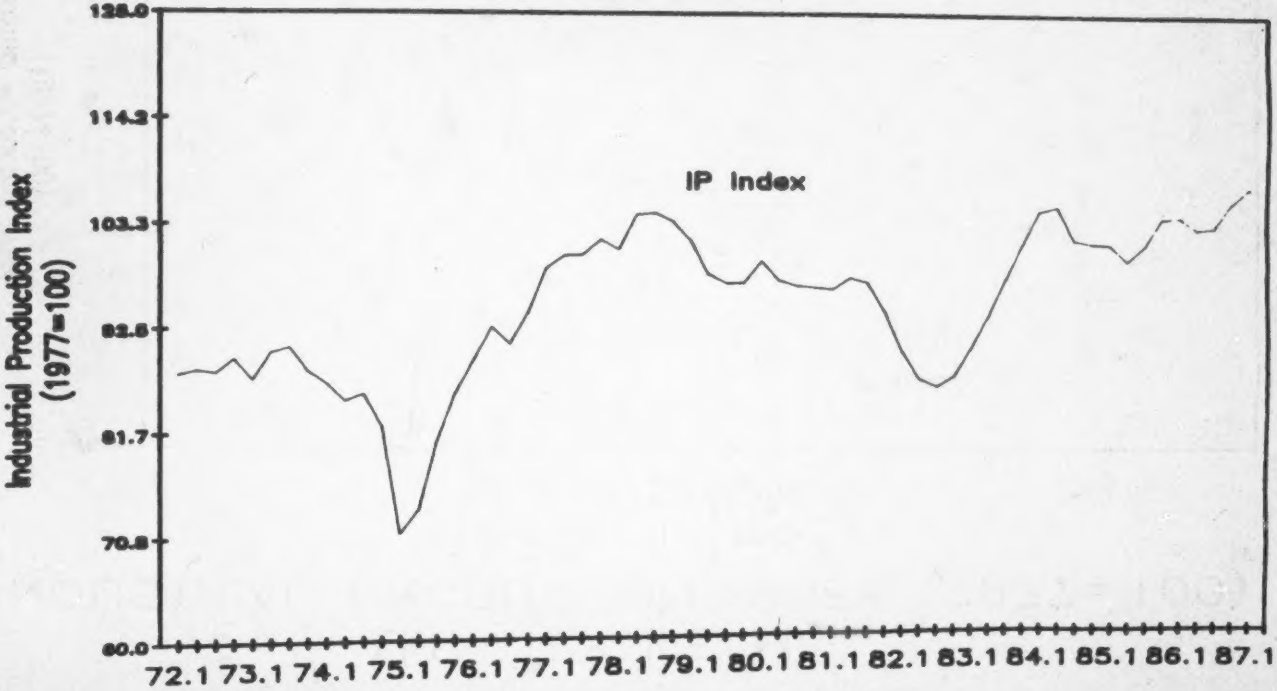
IV. CONCLUSIONS

For the foregoing reasons AAEI-TAG urges Committee members to oppose S. 549.

U.S. TEXTILE MILL
INDUSTRIAL PRODUCTION INDEX (1977=100)
1972 – 1987
(Quarterly)



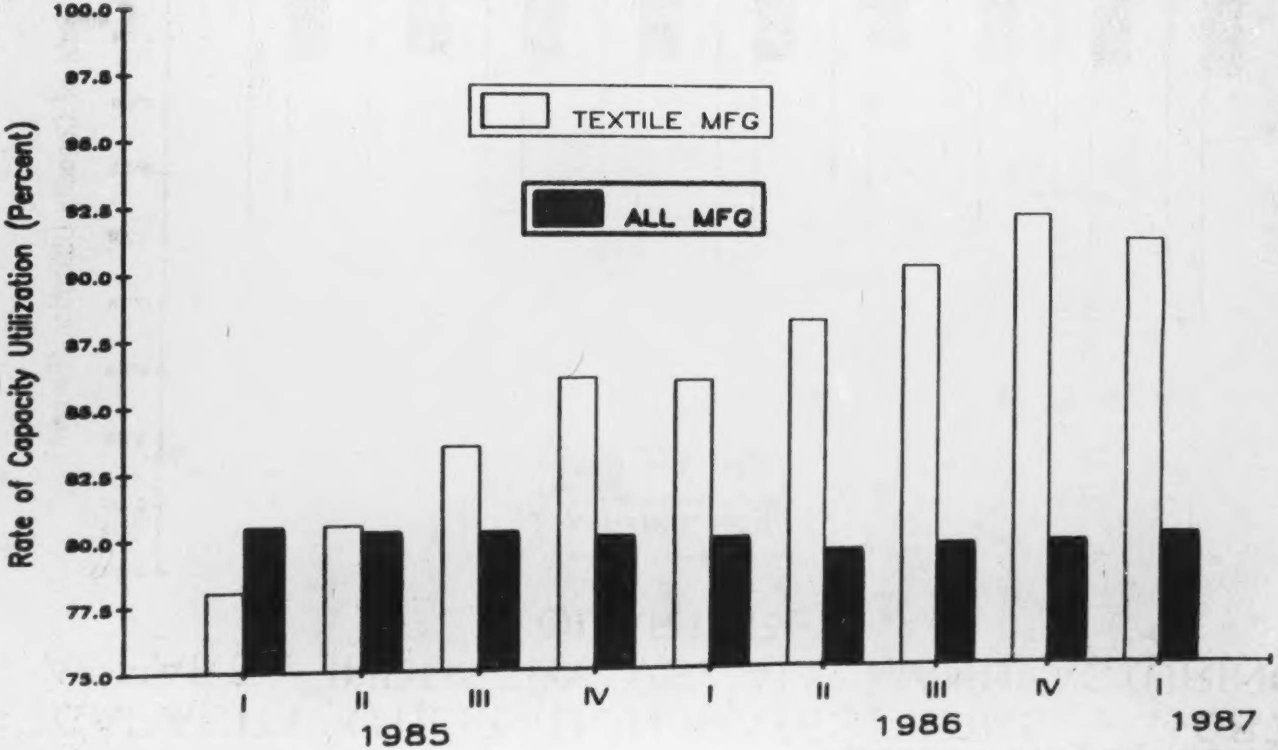
U.S. APPAREL PRODUCTS
INDUSTRIAL PRODUCTION INDEX (1977=100)
1972 – 1987
(Quarterly)



Source: Federal Reserve Board

CHART 3

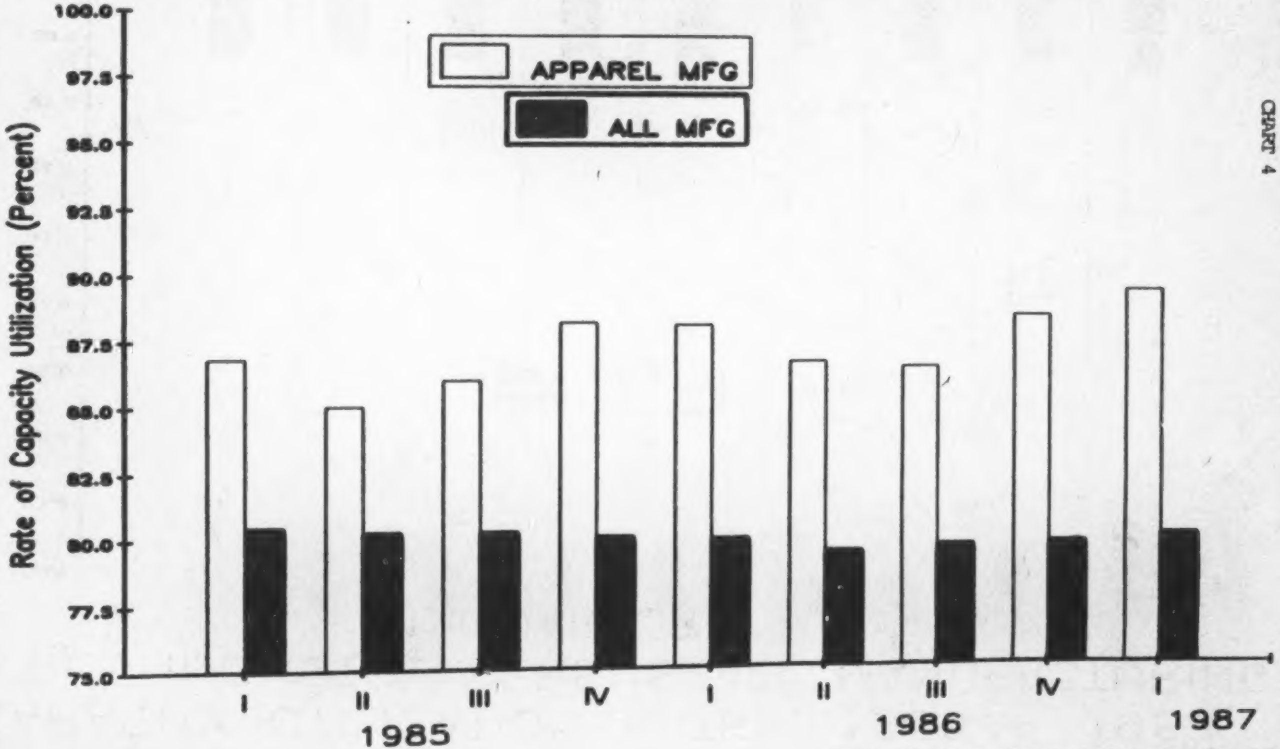
CAPACITY UTILIZATION RATES, 1985 – 1987 TEXTILE INDUSTRY VERSUS ALL MANUFACTURING QUARTERLY



SOURCE: U.S. Federal Reserve Board

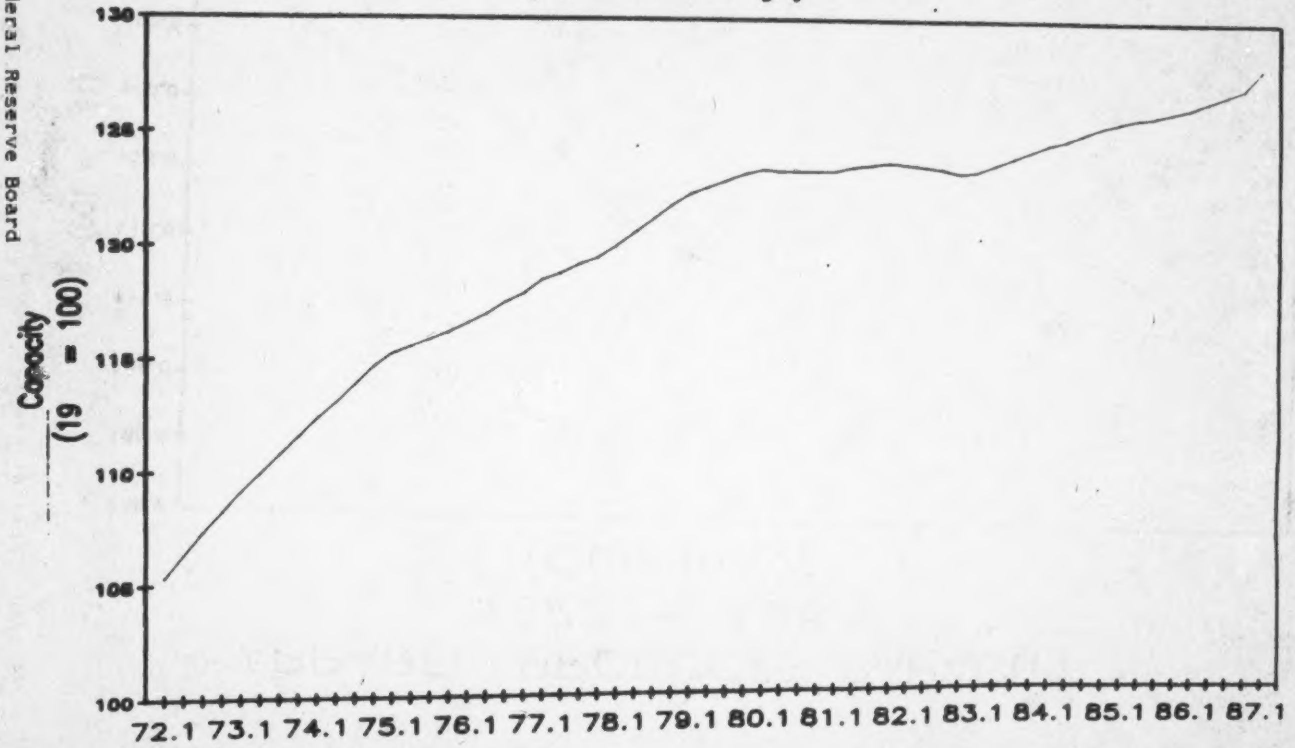
CHART 4

CAPACITY UTILIZATION RATES, 1985 – 1987
APPAREL INDUSTRY VS. ALL MANUFACTURING
QUARTERLY



SOURCE: U.S. Federal Reserve Board

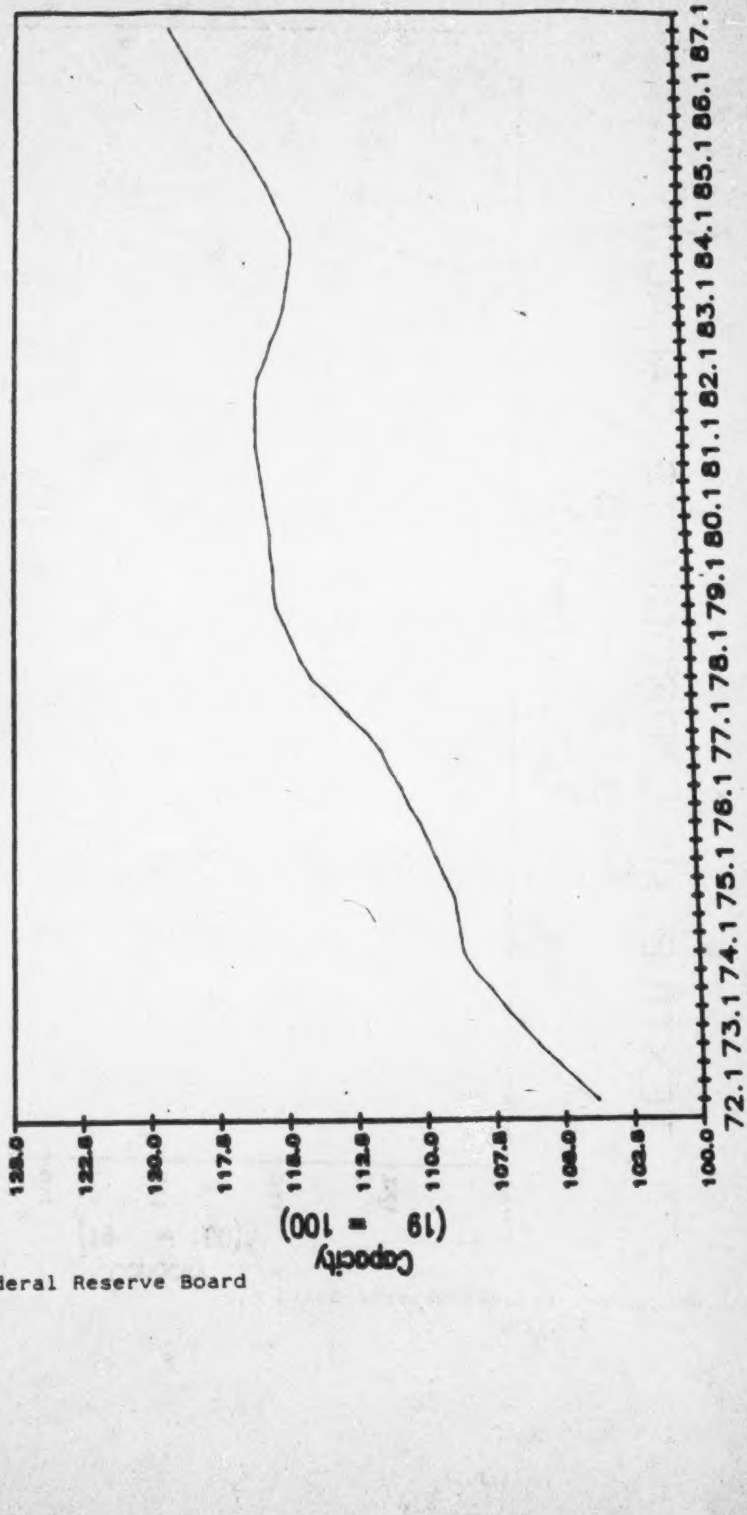
TEXTILE MILL PRODUCTS CAPACITY
1972 – 1987
(Quarterly)



Source: Federal Reserve Board

CHART 6

APPAREL PRODUCTS CAPACITY 1972 – 1987 (Quarterly)



Source: Federal Reserve Board

TABLE 1

Index of Capacity Utilization, 1972-1986 and the First Quarter of 1987, Seasonally Adjusted

Textile Mill Products

Year	I	II	III	IV	ANN
72	86.1	88.3	88.2	89.0	87.9
73	89.9	89.2	88.4	87.1	88.6
74	84.8	82.9	78.6	67.4	78.4
75	60.3	70.2	79.0	83.5	73.3
76	81.8	81.2	80.1	78.6	80.4
77	82.0	84.0	84.6	85.7	84.1
78	84.4	85.6	85.6	84.8	85.1
79	83.3	84.8	86.1	86.3	85.1
80	86.1	82.5	79.0	79.7	81.8
81	80.3	81.5	82.0	74.3	79.5
82	71.7	72.0	72.8	72.6	72.3
83	76.3	80.9	84.4	84.6	81.6
84	87.0	85.5	82.9	78.4	83.5
85	78.1	80.6	83.6	86.2	82.1
86	86.1	88.4	90.5	92.5	89.4
87	91.6				

Apparel

Year	I	II	III	IV	ANN
72	84.6	84.4	83.7	84.4	84.3
73	82.0	84.2	84.2	81.4	82.9
74	80.0	78.2	78.8	75.7	78.2
75	65.2	67.2	73.6	77.8	71.0
76	80.7	83.5	81.7	84.3	82.5
77	88.0	88.6	88.2	89.0	88.5
78	87.8	90.7	90.7	89.7	89.7
79	87.9	84.8	84.0	84.0	85.2
80	85.9	84.0	83.4	83.1	84.1
81	82.9	84.0	83.5	81.0	82.9
82	77.3	75.0	74.4	75.6	75.6
83	78.1	81.1	84.8	88.0	83.0
84	91.0	91.2	87.8	87.2	89.3
85	86.9	85.1	86.1	88.3	86.6
86	88.2	86.8	86.6	88.6	87.5
87	89.6				

SOURCE: Federal Reserve Board

TABLE 2

EMPLOYMENT CHANGES MAY 86 - MAY 87

(number of jobs and percent)

	TEXTILE JOBS	PERCENT INCREASE
Alabama	+ 1,100	+ 3.0
Florida	+ 200	+ 8.0
Georgia	+ 4,000	+ 3.9
North Carolina	+ 7,300	+ 3.5
South Carolina	+ 900	+ 0.9
Tennessee	+ 900	+ 3.9
Virginia	+ 2,700	+ 6.4
Kentucky	0	--
TOTAL	+17,100	+3.2

SOURCE: BLS unpublished data.

TABLE 3

INCREASE/DECREASE IN EMPLOYMENT, 1980-86

(Number of Jobs)

	Textiles	Apparel	Other Manufacturing	Services*	Wholesale/ Retail Trade
Georgia	-11,500	- 3,400	+ 60,300	+219,300	+170,000
North Carolina	-27,800	+ 3,000	+ 36,700	+150,700	+134,200
South Carolina	-32,800	- 1,400	+ 6,300	+ 79,700	+ 66,700
Florida	- 700	- 2,100	+ 63,300	+500,900	+299,500
Virginia	+ 200	- 5,100	+ 15,300	+217,100	+129,000
Tennessee	+ 500	- 5,200	- 2,600	+118,800	+ 70,600
New York	- 7,900	-45,600	-141,100	+515,600	+210,400
Alabama	- 4,500	- 600	- 500	+ 64,100	+ 47,800

* Includes finance, insurance, real estate; transportation and public utilities; general services (e.g., business services, hotels, recreation, health services, education). Does not include wholesale/retail trade which is reported separately.

SOURCE: Unpublished BLS data.

Demand Still Surpassing Supply As Prices Continue Upward Spiral

GRAY GOODS

BY HARRY JENKINS

NEW YORK — Demand continued to outrun supply in the gray goods market this week both on domestic and foreign fabrics with prices still on the rise.

Adding to the supply pressure was the action of the U.S. in slapping an embargo on Chinese polyester/cotton 48-inch, 96x56, 3.50 yard print cloth. This action affects goods that have not cleared Customs or are still on the water, according to reliable reports in the New York market. China has overshipped its quota on this fabric, importers reported. There was also a report that an embargo might be applied to 65/35 polyester/cotton blends involving the 88x64, 96x72 and 110x76 constructions in batistes and broadcloths.

The U.S. has indicated that if China requests a meeting on the embargo of 96x56 print cloths, an agreement could be quickly worked out, it was said. However, it was feared by buyers and importers that the embargo will disrupt shipments scheduled for fourth period arrival.

Domestic 96x56 print cloth has not been active but this week there was a flurry of buying with nearby delivery going at 66 cents compared with a prior price of 65 in secondhands. First and second quarters were bought at 63 compared with an earlier 62 as converters apparently moved to cover a possible shortfall in view of the embargo.

The bull market in all categories of gray goods continued to astonish market observers this week. They agreed that demand was larger than the supply of American and foreign cloth combined. Western Europe was reported to be buying heavily the past few weeks in various Far Eastern markets and paying roughly 10 per cent higher prices than U.S. buyers. This has contributed to the tight supply overseas, importers reported.

There was less and less talk of the downside risk in the second quarter when normally the gray goods market experiences a slow period and falling prices. Many felt that in 1987 the April-June period will be a strong one.

Trading this week saw the polyester/cotton 48-inch, 78x54, 4.00 yard booked for first quarter in good sized yardages at 54 and 54 1/2 cents on top makes. Deliveries for this year were scarce in firsthands. Spots in secondhands were sold at 54.

The polyester/cotton 51-inch, 90x54, 3.40 yard was sold at 63 cents for nearby, up from 61 cents previously quoted.

On the polyester/cotton 64-inch, 78x54, 2.99 yard spots sold in secondhands at 83 cents, up from 79 of the prior week.

On the 82x50 print cloth spots and fourth quarter were sold on imported cloth at 53 1/2 cents and domestic at 54 1/2.

On the cotton 64-inch, 68x68, 2.61 yard 89 cents was done on domestic goods for fourth quarter delivery and secondhand spots were sold at $1.20. In imports from South Korea first quarter shipment were at $1.08.

Other action involving the 68x68 saw imports from Hong Kong on 50-inch, 68x68, 3.30 yard selling at 80 cents for December arrival. A domestic quote on this cloth for December delivery was reported at 75.

The cotton 48-inch, 78x76, 3.30 yard was booked in sizable quantities at 70 cents and up to 72 cents for second quarter. There was a secondhand transaction at 77 for first quarter.

In polyester/rayon 48-inch, 78x54, 3.90 yard fourth period was moved at 52 cents. One mill quoted 53 but was turned down by converters. Polyester/rayons have continued to lag behind other print cloths. Chinese polyester/rayon 48-inch, 78x54, 3.90 yard sold at 48 cents for spot in secondhands. This was a 85/15 polyester/rayon blend.

The 96x54 from Taiwan was sold spot at 62 cents but the importer then upped his asking price to 65.

In sheetings the 63-inch, 60x60, 1.95 yard from overseas was sold to the West Coast at $1.20 for December arrival. An American mill booked second quarter at $1.03.

Prices Rise as Shortages Continue to Come to Light

NEW YORK — Scarcities in a number of industrial gray goods continued to show up last week, with prices moving up as a result.

Mills were said to be urging industrial accounts to take a second quarter position now in order to avoid difficulty in supply at a later date. Some industrial buyers checked by DNR said they were undecided on taking such an extended position at this point. But one converter admitted that he was having difficulty in filling in goods for first quarter deliveries in low count cotton print cloths and in sheetings and osnaburgs.

INDUSTRIAL GRAY GOODS

BY HARRY JENKINS

In the past week, 1.42 yard enameling duck suddenly strengthened, and it was reported that spot goods were tight. While the duck trade has been dull of late, the 1.42 yard enameling cloth has been used lately by both home furnishings and apparel converters. It was basically a shoe trade cloth. But as imports forced prices down, it became attractive to other areas.

A short time ago it was sold at about 92 cents on imports, but last week spot sales were reported ranging anywhere from 95 cents to $1.02. One importer told DNR he was sold out through December.

At least one American mill was said to be thinking of starting production on enameling duck now that a better price was obtainable.

Otherwise, the duck trade was quiet, with traders saying a season should begin within the next six weeks. With yarn and cotton and freight costs rising in Asia, some Hong Kong mills were reported asking 4 per cent more on army ducks.

Where [illegible] duck was concerned, certain producers in Asia indicated last week that production available for January-February shipment was tightening up, indicating that some activity has probably taken place or that looms have been shifted to other goods.

In sateens, the 58-inch, 96x56, 1.33 yard was stronger, with one domestic weaver selling first and second quarters at $1.32. This mill reported it was now sold out through June of next year on that style. A second U.S. weaver booked October at $1.40. Taiwan-made goods were reported sold at $1.30 for spot.

In sheetings, the 64-inch, 60x60, 1.95 yard made in America was moved at $1.07 for second quarter, up from $1.05 of the prior week. Hong Kong 1.95 yard was sold at $1.18 for first quarter arrival.

In osnaburgs, Hong Kong 47-inch, 2.34 yard was sold at 65 cents for fourth period arrival. An American mill noted a sale on the 59-inch, 32x26, 2.35 yard at 76 cents for nearby, up 2 cents from the preceding week.

In the drill group, the 59-inch, 68x40, 1.85 yard made in Peru was sold in second hands at 90 cents for spot. American-made 59-inch, 68x40, 2.25 yard was sold at 87 cents for this year.

In industrial print cloths, the 51-inch, 78x60, 3.21 yard was sold at 81 cents, first quarter, up from 80 previously reported. This cloth was sold out through next March.

Converters said usage of the 64x56 cotton print cloths in their blendings has increased of late, and this comes at a time when these goods have become tight right through second quarter of next year. Last week, 48-inch, 64x56, 4.45 yard was quoted at 55 1/2 cents for second quarter, and the 51-inch, 64x56, at 58 1/2, both higher than the prices of the prior week. On the 51-inch, [illegible] and the 48-inch, [illegible], supply was reported gone through second quarter.

WIDTH	CONSTRUCTION	PRICE
	SATEENS	
[illegible]	[illegible] 1.[illegible] [illegible]	1.[illegible]
[illegible]	[illegible] 1.[illegible] [illegible]	1.[illegible]
	SHEETINGS	
[illegible]	[illegible] [illegible]........	[illegible]
[illegible]	[illegible] 1.[illegible]........	1.[illegible]
[illegible]	[illegible] 3.[illegible]........	[illegible]
	Polyester/Cotton	
[illegible]	[illegible] 3.7[illegible]......	[illegible]
	[illegible]	
[illegible]	[illegible]........	—
[illegible]	[illegible]........	—
	[illegible]	
[illegible]	[illegible] 1.[illegible] [illegible]	1.[illegible]
[illegible]	[illegible] 1.[illegible] [illegible]	[illegible]
[illegible]	[illegible] [illegible] [illegible]	[illegible]
[illegible]	[illegible] [illegible] [illegible]	[illegible]
[illegible]	[illegible] [illegible] [illegible]	[illegible]
	Polyester/Cotton	
[illegible]	[illegible] [illegible]...	[illegible]
	[illegible]	
[illegible]	[illegible] 1.[illegible] [illegible]	1.[illegible]
[illegible]	[illegible] 1.[illegible] [illegible]	1.[illegible]
	INDUSTRIAL PRINT CLOTHS	
[illegible]	[illegible] [illegible].	[illegible]
51	[illegible] [illegible].	[illegible]
51	[illegible] 3.21......	81
	[illegible] DUCK	
[illegible]	[illegible] 1.[illegible] [illegible]	—
[illegible]	[illegible] 1.[illegible] [illegible]	[illegible]
	ARMY DUCK	
[illegible]	[illegible] [illegible]	—
[illegible]	[illegible] [illegible]	1.[illegible]
[illegible]	[illegible] [illegible]	1.[illegible]
[illegible]	[illegible] [illegible]	1.[illegible]
[illegible]	[illegible]	1.[illegible]
	[illegible] DUCK	
[illegible]	[illegible] [illegible]	—
[illegible]	[illegible] [illegible]	[illegible]

Increase in S. C. Apparel Jobs Seen Continuing; New Plants on Horizon

GREENVILLE, S.C. — South Carolina's apparel employment, which stands at its highest level in almost a year, should continue to rise, especially in light of the fact that at least six apparel makers in the last few weeks have said that they will open new plants or expand existing plants in the state.

Already this year, three new apparel plants have opened in South Carolina and three others have expanded, bringing approximately 350 new apparel jobs to the state, according to the South Carolina State Development Board. Additionally, an official of Greenville-based Stone Mfg. Co., has told DNR that it is hiring 200-300 additional sewing machine operators for its Cherrydale plant here.

In February (the latest figures available), apparel jobs in the state jumped 200 from January to number 45,200. That total also topped the year-ago figure of 45,100 apparel jobs, giving garment producers and state officials reason to be optimistic that the industry's battle with imports may go a little better in 1987.

"The U.S. market is a lot better for us right now, and I think it will remain a good market for at least the next two years and I hope beyond that," said James H. Whitman, owner and president of Whitco, a Camden, S.C.-based sportswear maker who last week said it will open a second manufacturing plant in the state to house its own cutting and finishing departments and an expanded sewing operation. The new Kershaw facility, which will open May 1, is expected to employ 50 persons by June 1 and 100 by Nov. 1, Whitman said.

Whitman gave credit for the improved business climate for domestic apparel manufacturers to the textile and apparel industries' Crafted With Pride campaign, and to a change in the mindset of retailers. "(Retailers) are no longer buying a tremendous amount of goods in advance. They buy a lot closer to the time the goods will be needed, watching for trends in the market," he said. "They want goods sewn and shipped in a short amount of time and we can provide that service—quality goods and a quick turnaround."

Other apparel plants opening in South Carolina this year include:

Kent, Inc., Easley, infant sleepwear; and Billie Kay's Uniforms, Inc., Orangeburg, women's white uniforms, according to the State Development Board. A company not listed by the board, Capers Mfg. Co., recently purchased the Walhalla plant of Stone Mfg. Co., retaining the plant's approximately 300 employes for the production of knitted garments. Stone sold the facility as part of a consolidation plan that will place much of the company's cutting and sewing operations at its Greenville plants, Eugene Stone, chairman, told DNR.

Meanwhile, officials in Spartanburg County have said they are negotiating with an apparel company that plans to reopen the Enro Shirt Co. in Woodruff, which was closed in 1985. State and county officials have declined to name the company.

Only one garment manufacturer has said it will close a South Carolina plant this year. Ship 'n Shore Products Corp. in February told the 170 employes of its blouse manufacturing plant in Greenville County that it will close the plant so that the company can consolidate it with another out-of-state plant. However, at least two parties have expressed interest in a possible purchase of the business, according to a Ship 'n Shore official.

Women's Wear Daily, April 14, 1987

TEXTILES

DAILY NEWS RECORD, THURSDAY, JULY [illegible]

11 New SC Textile-Apparel Plants To Open; 17 Others Will Expand

GREENVILLE, S.C. — Plans to open 11 new textile and apparel manufacturing plants in South Carolina have been unveiled during the first six months of this year, a number that matches new textile and apparel plant openings in all of 1986, according to the South Carolina State Development Board.

Additionally, 11 existing textile companies and six apparel firms in the state have said they will expand operations this year. That compares with 10 plant expansions in all of 1986, according to the board. The new and expanded textile operations will mean a total investment of $130,640,000 and will create 786 new jobs. New and expanded apparel operations totaled $25,420,000, creating 1,456 new jobs.

More than half of the new investments during the first half of this year were by foreign concerns, including the first major venture in South Carolina by a Korean company. Kunja Industrial Co. LTD., of Seoul, South Korea said last month it will build its first U.S. manufacturing facility, a 125,000-square-foot sweater knitting mill, in Marion County, S.C., employing more than 300 in its first year of operation. And United Solid, Inc., a joint venture company formed by two French concerns said it will open its first U.S. manufacturing plant in Aiken County, S.C. The totally vertical mill will take raw cotton and produce high-fashion athletic sportswear, and will employ 400 to 600 persons.

Also this year, Fiser SRL, an Italian apparel company opened its first U.S. sales office in Greenville; and Somet, Inc., an Italian textile machinery maker opened its first U.S. sales and service facility in Spartanburg.

11 New Textile and Apparel Plants Came to SC Drawing Boards in '86

GREENVILLE, S.C. — Plans to open 11 new textile and apparel plants in South Carolina were announced in 1986, representing approximately $33 million in new investment and 888 new jobs, according to the South Carolina State Development Board.

Expansions during 1986 by textile companies already operating in South Carolina represented about $176 million and will create 1,154 new jobs. Expansions worth approximately $13.6 million by existing apparel companies will create 753 new jobs, according to board figures.

Some of the new plants on the 1986 list are already in operation while others have only been announced, a board spokesman said. Information on expanded operations are based on an annual survey of all South Carolina manufacturers and on information made public through news releases. The names of survey respondents are confidential, the spokesman said.

New textile and apparel plants announced during 1986 were: H.W. Baker Linen Co., Greenville, terry cloth bath towels; J&W Industries, Chester, work shirts; New Castle Knitwear Manufacturing Co., Spartanburg, sweaters; American House Spinning Co., Abbeville, yarn; J.P. Stevens & Co., Inc., Olant. carpet fibers; Duraco Products c South Carolina, Union, macrar hangers; Shannon Manufacturir Co., Allendale, ladies' slack Whispering Pines Sportswea Pageland, men's shirts; Kingstre Knitwear, Kingstree, T-shirt Bowman, Inc., Orangebur men's sportswear, and Westpo Home Fashions Ltd., Greer, cu tom-quilted bedspreads.

Companies making public the plans to expand during 1986 wer Spring City Knitting Co., Ga fney, knitting cloth; Stone Man facturing Co., Greenville, ch dren's apparel; Union Carbi Corp., Lugoff, finishing fabric Springs Industries' Grace Finis ing plant, Lancaster, finishir fabrics; AQ Industries, Tir monsville, tricot and warp kr fabrics; Fieldcrest-Cannon, Inc York, terry cloth towels; JLN Inc., Chester, blouses; Sprin Industries' Riverlawn plant, Fo Lawn, bedspreads; Craig Indu tries, Lamar, apparel, ar Hebron Textiles, Inc., Cades. shirts.

—*KATHY*

DAILY NEWS RECORD, December 31, 1986

Route:

The KSA
PERSPECTIVE

Published by Kurt Salmon Associates December, 1986

Less noise, more balance...

Soft Goods Outlook for 1987

December 15, 1986

Just as the doctor ordered, things began to quiet down for soft goods and footwear in 1986. Much of the noise that had been distracting the system was filtered out by a strong recovery.

Concern over excess inventories, import surges, and corporate take-overs did not disappear entirely, of course. In the face of good business, however, it became background to a renewed concentration on the fundamentals.

Supply and demand appear to be in balance for the first time in this decade. If soft goods suppliers and retailers can maintain that equilibrium, and further strengthen their ability to control inventories in the year ahead, 1987 should turn out well, even though general economic factors are not bullish.

Shadows On The Economy.

The general economy appears headed for moderate growth, up 2-3% in real GNP. But it is not without problems.

The total trade deficit has finally started to shrink, although the apparel/textiles component is still in trouble.

Interest rates should decline further in 1987, and there are few serious threats to consumer spending — despite expectations for a slight rise in inflation (to 3%) and a declining Consumer Confidence Index (now at its lowest level since mid '83.)

Although disposable income and personal consumption expenditures are now advancing at a slower annual rate, they should be able to fuel further year-to-year gains in soft goods. The spurt in auto sales has subsided with the end of low-rate financing, making more spending power available for soft goods and footwear.

The darkest shadows in the economic picture are the record high debt levels carried by everyone — consumers, corporations, and government alike. Consumers presently owe almost 20% of their disposable income. The resilience to poor business of some corporations (particularly recent LBO's) with more debt than equity has yet to be tested. Equally disturbing is an unemployment rate hovering around 7% after four years of recovery.

Enough Strength for Soft Goods.

From a long term view, the U.S. economy faces plenty of problems; for the next 12 months, however, it looks healthy enough to sustain another advance for soft goods.

We think soft goods manufacturers and retailers are poised to take full advantage of whatever opportunities exist to equal or surpass this year. The better performers among them have already focused on consumer-oriented market strategies and services, combining them with tighter inventory controls, shorter buying cycles, and more flexible sourcing.

The timely availability of desirable new merchandise will, as always, have the most to say about performances in retailing, apparel, textiles, and footwear.

Inventories Under Control.

The inventory/sales ratio at the department stores and chains in August, 1986, was 2.04, the lowest level reached in the 30 months since the big inventory build-up began after Christmas, 1983. The ratio rose slightly to 2.11 last September — still lower than all of 1984 and 1985. Among apparel specialty stores, the August and September ratios were under 2.5 for the first time since 1983.

Lower retail stocks suggest more selective, if not fewer, price promotions during the current Christmas season, followed by a need for replenishment as we enter 1987. How much replenishment takes place, and when, will help determine the industry's health for the rest of the year and beyond.

Over-reaction to good holiday sales with large commitments in January for next Fall, could easily unbalance the system again. A little restraint with initial orders, aided by Quick Response inventory refills in season, would help to keep supply and demand in balance.

Initial pilot programs involving leading retailers, their apparel vendors, and textile suppliers, are proving that QR works.

Import Growth Peaking?

Apparel imports were up [illegible] in square yard equivalents, and about [illegible] in dollars, for the first 10 months of 1986. Imported textile products rose 24[illegible] in units during the same period last year. In footwear, imported pairs [illegible]

Copyright December 1986 by Kurt Salmon Associates, Inc.

Table I — Basic Economic Indicators

	1985	Est. 1986	Proj. 1987	% Change 1987/86
Gross National Product (Bil 82 $)	3585	3665	3765	+ 2
Pers. Consumption Expend's (Bil current $)				
Total	2601	2760	2840	+ 3
Apparel & Accessories	132.2	140.0	144	+ 3
Footwear	22.9	24.2	25.4	+ 5
Producer Price Index				
All Items (1967 = 100)	308.7	302.0	306.0	+ 1
Apparel (1967 = 100)	204.0	206.0	208.0	+ 1
Textiles (1975 = 100)	142.1	144.0	147.0	+ 2
Footwear (1967 = 100)	258.7	262.0	264.5	+ 1

	1985	Est. 1986	Proj. 1987	% Change 1987/86
Consumer Price Index				
All Items (1967 = 100)	322.2	328.6	338.0	+ 3
Apparel (1967 = 100)	188.1	190.0	192.0	+ [illegible]
Footwear (1967 = 100)	212.1	214.2	215.0	[illegible]
Employment (Avg. for Yr)				
Total (Millions)	107.2	[illegible]	[illegible]	+ 3
Apparel (000)	1128	[illegible]	[illegible]	− [illegible]
Textiles (000)	704	707	[illegible]	[illegible]
Footwear (000)	100	94	92	− 2
Unempl. Rate (%) (Avg. for Yr)	7.2	7.0	6.9	[illegible]
Imports: Apparel (Bil syd)	5.1	5.6	6.3	+ [illegible]
Apparel (Bil $)*	18.4	[illegible]	[illegible]	+ [illegible]
Textiles (Bil syd)	5.7	7.2	8.1	+ 13
Textiles (Bil $)*	4.8	6.0	6.9	+ 15
Footwear (Mil pr)	~~842.7~~	~~880.0~~	1420	+ 14
Footwear (Bil $)	7.4	8.4	7.6	+ 18

* Customs value. Imports only include fibers covered by MFA at start of 1986.

15% in the first eight months of 1986. All of these growth percentages have been exceeded in previous years.

Quota limits are filling up, and growth should slow in the last two months — but such hopes have been dashed before. Nevertheless, new quota agreements with Hong Kong, Taiwan, and Korea hold out the hope that 1986 was the year when the annual growth rate of apparel imports from the Far East peaked. Although China has had its spurts, the long term picture there is erratic, particularly in quota management. The less developed Asian sources cannot match the reliability of the Big Three, and this should further accelerate the growth of 807 sourcing.

Whatever happens with imports, there is growing evidence that U.S. retailers and manufacturers are managing their sourcing alternatives better.

Apparel: + 2.5%.

Although last year's projection of a 2.5% gain in apparel unit consumption turned out to be conservative, the same forecast for 1987 may be over-optimistic. A number of weak spots have shown up, both in the economy and the apparel industry.

The general economy is giving off mixed signals, with most of the caution signs showing up this fall in basic areas like durables manufacturing, factory orders, new home sales, and employment. If downward or static trends in measures like these continue, consumer spending on apparel may eventually be blunted.

Table II
Survey of Manufacturers' Expectations for 1987

	Apparel								Textiles			
	All (68)	Men's & Boys' (24)	Women's & Children's (30)	Diversified (14)	Hosiery (7)	Footwear (10)	Luggage (11)	Fashion Access. & Small Lthr. Gds. (8)	All (40)	Fibers & Yarns (16)	Fabrics (Woven - 10 Knit - 4) (14)	Diversified/ Home Textiles/ Carpets (10)
Projected % Changes 1987 vs. 1986												
Units Shipped	+ 6	+ 6	+ 3	+6	+4	+ 7	+12	+ 9	+11	+ 6	+ 9	+21
Dollar Sales	+ 9	+ 9	+ 7	+9	+6	+ 9	+13	+12	+13	+ 6	+11	+23
Avg. Wholesale Price	+ 4	+ 4	+ 4	+2	+3	+ 2	+ 3	+ 5	+ 1	–	+ 1	+ 3
Inventory Levels	− 3	− 2	− 4	−3	–	− 3	+ 5	+10	–	− 2	− 1	+ 3
Capital Expenditures	+ 4	+ 2	+ 8	+6	+3	+ 2	+ 1	+ 8	+28	+ 8	+11	+56
Profits	+11	+11	+12	+6	+6	+19	+ 6	+18	+27	+22	+40	+61
Sourcing Mix % 1986/87												
– Made in U.S.	84/83	86/86	84/84	83/79	97/95	43/44	81/80	73/73				
– 807	4/6	6/7	3/5	2/6	2/3	0/0	2/2	4/4				
– Far East	10/9	5/4	12/10	14/14	0/0	32/31	16/16	17/17				
– Elsewhere	2/2	3/3	1/1	1/1	1/2	25/25	1/2	6/6				

Retailing: + 3%.

Less May Be Better

Soft goods sales at retail in 1986 will probably gain around 7%, with prices remaining almost static. The outlook for 1987 suggests less growth — perhaps 4% — with 1% for higher prices of apparel and home textiles.

As noted elsewhere, there are too many weak spots and uncertainties in the economy to indicate stronger buying by consumers next year. However, we feel 3% real growth in soft goods will be nothing to sneeze at, particularly if it is high quality (more profitable) growth.

With inventories under better control, there should be fewer markdowns due to forced price promotions. In addition, retailers are becoming more concerned with the productivity of their space and people as well as their merchandise.

Thus, we see more attention being paid next year to execution in all phases: better merchandise presentation to maximize selling space; better stock maintenance to reduce walk-outs; better data collection to get at profitability by item; better measurement of performance; better logistics to speed merchandise to the sales floor; better use of personnel to execute transactions while improving service; better sourcing to support merchandising, and so on.

As retailers achieve greater efficiency in all their operations, the quality of their sales will improve, yielding better bottom-line results. Less can indeed be better.

Problems and Issues.

Better execution joins a long list of issues and problems that retailers must face in 1987 and beyond.

The new tax code will dull the appeal of adding new stores, which coincides with a long overdue shift to improving the productivity of existing facilities.

The most basic elements of customer service — having wanted merchandise available and making it reasonably easy to purchase — are receiving more attention by stores (usually those with the best performances.) Rapid inventory replenishment programs and computerized linkages with vendors (major elements of Quick Response) are being installed as retailers become more sensitive to walk-out losses.

In their quest for greater control and more productivity, some merchants are assuming roles that traditionally belong to manufacturers: product development, style testing, and sourcing are just a few examples of the vertical integration beginning to take place.

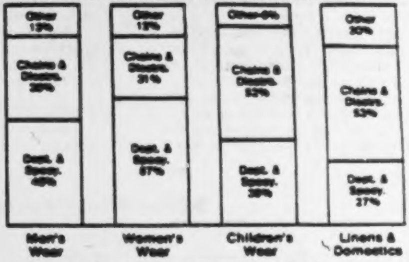
Retailers with private label programs are now seeking better balance and control over their merchandise sources throughout the world.

A key issue for all retailers is private label -vs- national brands. While the latter are still important in many traditional apparel categories, the drive for better margins has seen steady expansion of store labels. In the process, market positions for both vendors and retailers are in a state of flux, and will probably remain there for some time.

To further complicate matters, new types of retail outlets are emerging to challenge the establishment.
The chart below shows the inroads that these new channels are making in the major soft goods categories.

The year ahead offers ample opportunities for retailers to post smaller but more profitable year-to-year gains, while getting started on solving the key long range issues facing them.

Soft Goods Purchases by Major Retail Channels
% of Dollar Expenditures - First Nine Months of 1986



"Other" includes Direct Mail, Factory Outlet, Off-Price, Food, Drug, and Variety Stores. Source: KSA/NPD Purchase Panel Data.

Deflation, particularly in oil prices, certainly helped consumer spending in 1986. It will not be available next year, when inflation is expected to warm up. Extra take-home pay under the new tax code has already been discounted as a spending stimulus by observers who cite confusion and skepticism about tax savings, and an end to installment interest deductions.

Nevertheless, apparel's strong performance in 1986 should provide momentum for next year, and that accounts for some of our optimism. Inventory pipelines are cleaner, and a strong fashion direction — active sportswear — has taken on a life of its own and seems to be accelerating. Fleece is omnipresent, and other knitted garments are having a field day.

But these strong categories have taken some business and attention away from large, traditional classifications like men's suits, dress shirts, slacks, women's dresses and intimate apparel.

There seems to be a greater mix of strong and weak categories along the apparel spectrum this year, and the total industry's performance may only reflect something in between. We think apparel as a whole will do well to go ahead 2-3% in units next year.

• **Survey Results.** KSA's Annual Survey of Manufacturers' Expectations shows a 5% gain in unit shipments forecast by the 68 apparel manufacturers participating. The same group expects average wholesale prices to rise 4% next year, and this could confirm our reservations about consumer spending.

An average decrease of 3% in inventory levels predicted by respondents
not unrealistic, providing sales expec-
tations hold up, and should put an 11
profit gain within easy reach.

• **Better Profits.** Quarterly reports of
the larger public apparel companies
1986 have been impressive compare
with poor 1985 results, and we expec
profitability to continue improving ne
year, even if sales are flat.

One reason for this fearless forecas
is the better tax treatment that appa
corporations will receive under the n
code. More important, however, is the
sense that apparel companies appea
to be in greater control of their ow
destinies. In addition to inventories,
are doing a better job of managing

their marketing, sourcing, and merchandising — the fundamentals that determine profits.

- **Sourcing.** This year's survey sample expects to source less from the Far East, and increase its use of 807. Only the diversified manufacturers forecast a significant shift away from domestic sourcing in 1987.

Although apparel imports climbed again in 1986, and will continue to do so next year, both the rate of growth and its quality are expected to be different. As noted, import increases should come at a slower pace, thanks to new and tighter bi-lateral agreements, and the fact that there are 50% more of them in place now than there were in 1983 (38 vs. 25).

In addition, both apparel manufacturers and retailers are taking sourcing more seriously. There is less opportunism and more long term strategy evident as the need for a balanced mix of sources —domestic, Far East, Europe, and 807 — is recognized.

Unlike textiles, apparel has seen fewer takeovers and LBO's in 1986, and more companies going public. Even so, there has been a further concentration of marketing power, and more evidence of sophisticated, hard-nosed strategic planning. Companies like Cluett, Claiborne, Kellwood, Oshkosh, Russell, Tultex, Jockey, and VF have sharpened their marketing focus, divested units that didn't fit their strategies, and grown.

- **Men's & Boys' Wear** did better than expected in 1986, and should grow another 2% in units next year because fashion has become important in the large young men's market. "Miami Vice" looks, featuring looser fit and layers of shirts and sweaters, will continue to help the sportcoat sector of tailored clothing. Traditional suits will remain in the doldrums, along with furnishings.

Active sportswear is creating a casual dress code that has revolutionized — and revitalized — men's wear. Special purpose wardrobes abound in the closets of fashion conscious males who want to make a "statement" about themselves —with different ones for work, sports, Friday nights, shopping, and just hanging out. (The same is true for females, of course.)

Knits are a special beneficiary of this trend. Screen-printed T-shirts and sweatshirts deliver messages and have become almost disposable. Warm-up suits have no gender —and by itself that fact seems to have become a fashion plus among Yuppies.

Table III
Apparel, Hosiery & Domestics Consumption

Year-to-Year % Changes in Units
Purchased by Consumers (Selected Categories)

% of Units Sold @ Reg. Price	% of Units Imported 1985	1986		Actual 1984/83	Actual 1985/84	Est. 1986/85	Proj. 1987/86
30	**24**	**24**	**Men's Wear**	− 2	0	+ 2	+ 2
26	36	36	Suits & Sportcoats	+ 3	−10	+ 7	+ 8
28	53	51	Dress Shirts	+ 8	− 4	− 5	− 2
31	54	52	Casual Shirts	− 5	+ 5	− 4	+ 3
38	27	24	Active Sportswear	+ 6	+10	+ 2	+ 3
17	51	58	Sweaters	− 4	+ 3	− 8	+ 3
31	22	27	Slacks	+ 4	− 8	− 8	− 2
30	8	9	Denim Jeans	− 8	− 3	− 4	+ 1
39	5	5	Underwear	+ 3	+ 4	+ 2	+ 2
44	38	30	Ties	+ 2	+ 4	− 9	0
28	**18**	**18**	**Boys' Wear (1–18)**	0	+ 6	0	+ 2
36	30	29	Casual Shirts	− 3	+ 7	+ 3	+ 2
34	24	26	Active Sportswear	+17	+ 8	+ 8	+ 5
33	23	28	Slacks	+14	0	− 8	− 2
24	18	18	Denim Jeans	−12	+ 8	− 3	0
37	3	3	Underwear	− 1	+13	− 1	+ 1
30	**36**	**27**	**Women's Wear**	+ 1	0	+ 2	+ 3
32	42	46	Blouses & Shirts	− 2	− 1	+ 5	+ 3
33	53	58	Tee/Tank/Polo	+10	−14	+ 7	+ 4
33	28	27	Active Sportswear	+16	+20	+20	+15
27	59	59	Sweaters	+11	+14	+15	+10
29	23	24	Slacks	− 1	+ 4	+ 7	+ 5
36	33	36	Denim Jeans	− 7	+ 1	− 1	+ 1
31	23	28	Skirts	+ 2	− 5	+10	+ 5
33	18	22	Dresses	− 1	− 5	− 6	0
48	11	12	Daywear	+ 9	− 4	− 1	0
35	49	56	Bras	− 1	− 3	− 8	− 2
33	21	20	Sleepwear	− 6	+ 3	− 2	− 3
36	66	66	Belts, Handbags, Wallets	+ 3	+ 8	+ 3	+ 3
45	**21**	**20**	**Girls' Wear (1–12)**	− 8	− 3	0	+ 1
36	30	23	Blouses & Shirts	0	− 1	+ 5	+ 2
36	30	38	Tee/Tank/Polo	− 3	−14	− 2	0
36	27	19	Active Sportswear	+23	+ 3	+20	+10
38	24	21	Slacks	+ 8	+ 8	+17	+ 5
29	33	32	Denim Jeans	−17	0	−10	− 5
43	15	13	Panties	+ 4	− 4	− 8	− 2
31	7	9	Sleepwear	+ 8	− 5	−10	− 4
47	**8**	**8**	**Hosiery**	− 2	+ 4	− 2	0
44	5	5	Women's Pantyhose	− 5	+ 8	− 3	− 2
61	7	6	Socks - Female	+ 2	+ 4	+ 3	+ 1
46	4	4	Socks - Male	0	+ 3	− 4	+ 1
30	**15**	**17**	**Domestics**	− 4	+ 2	− 3	+ 1
32	18	21	Towels & Washcloths	− 5	+ 3	0	+ 2
19	6	6	Sheets & Pillowcases	− 8	+ 2	+ 1	+ 2
37	11	14	Curtains & Draperies	+ 5	− 9	−10	0
38	8	7	Bedspreads, Blankets, etc.	− 5	+ 1	+ 8	0

Source: The KSA/NPD Purchase Panel, a joint venture of Kurt Salmon Associates and the NPD group. The Purchase Panel is a nationally representative sample of over 19,500 households who report their monthly purchases of apparel and home textile products. This data base is available to KSA clients for marketing and long-range planning decisions.

Footwear: + 5%

Athletic Styles Dominate An Oversupplied Market

The various components of the footwear market have been meandering the last two years. Men's and juvenile shoe consumption declined during the period, but women's and infants' shoes, and all athletic footwear, registered smart gains.

The footwear pipeline remains full, due to a combination of factors: imports; technology; the growing importance of fashion; more retail outlets; and shorter product life cycles.

Most of these developments have helped footwear achieve new sales levels, but they bring problems with them. One is the steady growth of per capita supply, which has climbed from 3.2 pairs in 1981 to 4.6 pairs in 1985. Per capita consumption has failed to keep up, however, and the result is an oversupplied footwear market.

Imports have shown signs of slightly slower growth, but the increase through September of 1986 was still 12% over the same period of 1985. Import penetration for all footwear stood at 79% at the end of August.

Stronger currencies in South Korea and Taiwan are tempting those countries away from labor intensive products like footwear, and towards more expensive, high tech products like computers. Other countries, such as Italy, are exporting exotic styling and materials at equally exotic prices. There is no reason to expect any significant change in footwear imports for 1987.

More fashion in footwear has brought higher price points along with shorter life cycles — and obsolescence. At the same time, larger companies are investing in more retail space rather than manufacturing capacity, relying on the strength of their brand names to compete against imports. The resulting proliferation of retail footwear outlets has been a major contributor to today's oversupplied market. Inventory management will again be the key to profit performance.

The Athletic Footwear Phenomenon.

By itself, the athletic category now represents 34% of total footwear consumption, up from 30% in 1985. That makes it the largest single component of the U.S. footwear market.

While department stores remain the number one retail outlet for athletic footwear, there are now specialty stores for a host of highly specific end-uses: participant in dozens of different sports; aerobic; spectator; ordinary walking; jogging; serious running, and on and on. Running shoes at $100 a pair must be authentic. Casual, spectator versions that display the same athletic look have taken over the popular price points.

Sales of athletic footwear were up by 15% through the first half of 1986, and unit consumption next year is expected to rise by another 20%, pulling the entire industry with it. The other footwear categories should behave as shown below.

Footwear Consumption

Year-to-Year % Change in Pairs Purchased by Consumers

	1984/83	1985/84	Est. 1986/85	Proj. 1987/86
Dress, Casual, Work & Boots				
Men's	+9	− 5	0	− 5
Women's	+9	+ 6	+ 8	+ 5
Boys'	+8	− 4	0	− 5
Girls'	+6	0	− 8	0
Infants'	0	+11	+15	+10
Athletic (all)	+7	+10	+15	+20

Source: The Footwear Market Index, a service of Kormos, Harris and Associates, Inc., tracks consumer purchases of footwear based on interviews with 25,000 households on a regular basis. Projections are by KSA.

Meanwhile, their kid brothers buy surfing trunks for skateboarding in the Midwest, further emphasizing that every activity has its own special suit.

- **Women's & Children's Wear** survey respondents are slightly less optimistic than we are about 1987. Led by the active sportswear and sweater categories, women's wear unit consumption should be up 3%, and girls' wear up [illegible] next year.

Intimate apparel, sleepwear, and dresses (always hard to call) are among the few classifications expected to be flat or down ... A jeans revival is already under way in all sectors but girls, and denim will show up in new fashion interpretations beyond bottoms.

Color is helping sweaters to go ahead again ... In women's suits, the swing away from "me-too" man tailoring to softer feminine silhouettes continues. Skirts will again offer a wide variety of lengths and shapes to deliver a fashion statement for the wearer.

In activewear, another big year is seen for cotton jerseys and fleeces, with oversize looks and new pastel colorings ... Long lengths, flaring skirts and broad shoulders will key outerwear and coat styles.

Armed with many distinctive fashion influences, women's wear should provide some excitement in 1987.

- ***Accessories.*** Following a season of classic and restrained looks, big prints (snakeskin, crocodile, and big calf) are expected to key most fashion accessories next year — from shoes, handbags, and belts to scarves and tortoise shell belt buckles. The category should be up 3% in unit consumption.

Textiles: + 2%.

It may have been embarrassing for the textile industry to report a near doubling of profits for the first half of 1986, just at the height of its efforts to gain protective legislation. However, the recovery only brought textiles back in line with other industries after a truly dismal 1985, and could be excused.

That recovery has continued strongly, and all signs indicate more of the same in 1987. The seeds for this happy development were planted during the difficult days of 1985, when the industry plowed under a good deal of its excess capacity through consolidation and closures of marginal facilities. On a modest rise in demand, capacity utilization for textiles is now at its highest level in years.

Other factors that helped in 1986 and will continue to help in 1987: the restructuring of the cotton price support [illegible]

Survey Results:- Problems, Trends, QR

***Imports** remain the top problem for apparel and textile manufacturers in this year's survey, with the former citing **sales, inventories,** and **labor** next. **Overcapacity** received the next greatest number of mentions — primarily by fiber and yarn respondents... Trends towards more **casual sportswear** and **activewear**, and less **dress-up looks**, got the most votes by apparel respondents, with growth in private label second... The most popular form of implementing Quick Response is to **shorten manufacturing cycle time** (78% of apparel firms answering the question.) Less than half checked **closer customer linkage.** Among textile respondents, computer linkage with customers was the favorite with 63%.*

has given U.S. mills access to competitive cotton prices; a weaker dollar has renewed interest in exports; and a new Multi-Fiber Agreement, although falling short of industry objectives, offers some further control over import growth rates.

Despite a mediocre economic outlook for 1987, we expect textile industry shipments to be up 2%, with profits up about 20%. This will give the industry some breathing room to continue its program of rationalization, improve its flexibility, and shorten its lead-times to provide faster service to its customers.

Adversity Breeds Improvement.

Faced with the seemingly intractable problem of competing against low-wage imports, some industry managements have shifted their emphasis from the top line — shipments — to the bottom line — profits.

This relatively recent development may be the best thing that has happened in textiles since the advent of high speed spinning. For it provides the foundation for a stronger, smaller, leaner industry capable of earning reasonable returns through superior marketing and service.

- ***Apparel Fabrics.*** This area, still textile's most important end-use market, is where the 1986 recovery began. The two stand-outs — cotton greige goods for printing and piece dyeing, and knits, particularly fleece — will continue to do well in 1987.

Demand for natural fibers continues strong, paying handsome dividends to those mills that invested in equipment to meet OSHA requirements. Further, fabric prices remained high when cotton costs dropped. The wool industry is also benefiting, particularly the woolen sector, with wool coats continuing to be an important fashion item.

The denim market has been helped by a recovery in exports this year, and domestic demand should improve next year. Weak demand for cyclical corduroy fabric appears to be bottoming out.

Both blended goods and textured wovens have been hurt by natural fibers. Blended goods producers will continue to emphasize higher cotton-content blends, while the lightweight polyester fabric business should benefit from recent government action against illegal trans-shipment of Korean fabrics through Japan.

- ***Yarn and Industrial.*** Led by demand for fleece and sweaters, the knit market should remain strong into 1987, taking sales yarn with it. Cotton and cotton-rich yarns should do best.

Automotive fabrics had a good year in 1986, buoyed by strong auto sales and the growing popularity of textile upholstery and trim. Weaker car sales in 1987 will slow the automotive fabrics sector to a neutral year.

Imports continue to be a problem in other industrial fabric sectors such as softsided luggage and footwear. These declines will probably prove too great to be offset by unit growth in the specialized and engineered sectors of the industrial fabrics market.

- ***Home Textiles.*** Fiber developments and relocation will affect the home textiles sector in 1987.

As elsewhere, demand for natural fibers will see more sales of higher priced, fine count cotton products for the home. All cotton sheets should capture 15-20% of the market next year, up from 10% in 1986. Waterbed and flannel sheets will also do well.

A continuing decline in curtains, due largely to the popularity of metal blinds, should be offset by a rebound in draperies. The latter satisfy some of the redecorating impulse that accompanies changing residences — and there is a lot of that going on.

After a brisk beginning, housing starts have receded to a 1.7 million annual level. But resales remain high, helping sales of the bigger ticket home textile products.

Carpets are expected to advance 2-3% in square yards next year, primarily because both households and offices are relocating. (An oversupply of commercial space is not all bad, since it stimulates inducements to move, and no one, it seems, relocates without refurnishing.) New product developments, such as stain resistant nylon, will also help carpet consumption in both yardage and dollars.

●

Despite some uncertainties about the general economy and the continued vigor of consumer spending, we feel that the fundamentals are in place for soft goods to turn 1987 into another good year. There is a better balance between supply and demand throughout the textile/apparel/retail system, and companies are now concentrating on the key issues of consumer marketing, more responsive service, and balanced sourcing.

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Printed in USA/12-86/7M

The **Chairman**. Thank you very much.

Our next witness will be Mrs. Doreen Brown, who is the President of Consumers for World Trade.

Mrs. Brown.

STATEMENT OF DOREN L. BROWN, PRESIDENT, CONSUMERS FOR WORLD TRADE, WASHINGTON, DC

Mrs. **Brown**. Thank you, Mr. Chairman.

Consumers for World Trade is a national, nonprofit organization that is concerned with the interest of consumers, the public interest, in international trade policy.

I am Doren Brown, the President of the organization. I also serve as a consumer representative on the Department of Commerce's Importers and Retailers Textile Advisory Committee.

CWT deals with a large number of trade issues, but it is not surprising that over the years we have been very concerned with U.S. trade policy as it is applied to the domestic textile and apparel industries. We have seen with amazement an industrial sector which has been protected from foreign competition for over a century and a half by high tariffs—currently 18 percent as opposed to 3 percent for all other industrial sectors—as well as by comprehensive quotas, repeatedly ask for more protection and getting it; if not through legislation, through tougher expanded MFAs, and through more and tighter quotas bilaterally negotiated with our supplier countries.

We have seen with dismay the escalation of prices of both domestic and imported textiles and apparel, and a gradual elimination of lower cost goods in the marketplace.

Consider that out of the $65 billion yearly that consumers pay for all U.S. barriers to trade, $27 billion are due to the protection of the textile and apparel industry at the wholesale level. This is comparable to approximately $54 billion at the retail level. And the proposed legislation would increase this amount by an additional $10 billion a year in higher retail prices.

By 1996, the date for the first official evaluation of the program by the Department of Commerce, consumers will have paid an additional $88 billion. And consumers, of course, pay not only in cost but in availability and in quality as well.

We must keep in mind that, as it is the lower-cost items that are most affected by trade barriers, that it is low income individuals, the elderly with a fixed income, and, in fact, unemployed workers, who consume even though they are not earning, who are hurt the most since they spend a much larger percent of their income on necessities, such as food and clothing.

And, ironically, when supplier nations' quota up—that is, ship higher priced items to compensate for the quotas—our domestic industry finds itself forced to compete in a price range of goods in which it had the comparative advantage prior to the imposition of the barriers.

We have seen with anger the textile and apparel industries, now joined by the footwear producers, still not satisfied, and requesting the most severe and all encompassing protective legislation yet to be proposed.

The domestic industry, apparently, will never be satisfied until the U.S. imposes a total ban on imports of textiles, apparels and footwear. This not inplausible scenario would, of course, be disastrous to American consumers and have serious consequences for our national economy. But apparently the industry is not concerned about consumers. Nor is it concerned about workers, in general, since it is estimated that 52,000 retail jobs would be threatened by this legislation and would result in a net loss of 5,700 jobs. And, again, consumers would be taxed $223,000 for each of the jobs protected.

In our full statement, Mr. Chairman, we discuss the fact that this legislation violates the GATT, particularly Article 19 of the GATT, and its domestic counterpart in U.S. law, section 201, which has been so arduously debated on the Senate floor in recent days. We fear the damage that this legislation could do to the success of the Uruguay Round. We also indicate that the legislation violates the current MFA and the bilateral agreements negotiated between the U.S. and supplier nations.

In conclusion, we would like, respectfully, to urge that the Senate—the full Senate—reject S. 549 on the grounds that it is irresponsible and unecessary special interest legislation that ignores the public good. It violates international agreements. It involves our largest trading partners, and it invites justified retaliation against U.S. products. Contrary to the sentiment that no country would dare retaliate against the U.S. the European Community in fact has already announced that it would do so if the bill became law.

This is not the way to enhance competitiveness, to expand trade or to open world markets for U.S. exports as is called for by this One Hundredth Congress. These worthy goals can only be attained by avoiding this type of unwarranted trade restrictive legislation, which is detrimental to workers, detrimental to producers and certainly detrimental to the public interest.

Thank you.

The CHAIRMAN. Thank you very much, Mrs. Brown.

[The prepared statement of Mrs. Brown follows:]

STATEMENT OF DOREEN L. BROWN
PRESIDENT, CONSUMERS FOR WORLD TRADE
BEFORE THE U.S. SENATE
COMMITTEE ON FINANCE

THE TEXTILE AND APPAREL TRADE ACT OF 1987

My name is Doreen Brown. I am the President of Consumers for World Trade (CWT), a national non-profit organization which concerns itself with the interests of American consumers in international trade policy, both exports and imports. One of our primary goals is to bring to the attention of the American public and of the formulators of trade policy the high price consumers are paying for the protection of specific industries and products in the form of hidden taxes and the reduction of the availability of lower priced goods in the marketplace.

U.S. textile and apparel trade policy is a classic example of the unwarranted and unjustified economic burden being borne by consumers. Of the $65 billion yearly that consumers pay for U.S. barriers to trade, $27 billion is attributable to protection for the textile industry at the wholesale level. This is approximately equivalent to $54 billion at the retail level.

Our concerns about textile and apparel trade policies started many years ago with the original Multifiber Arrangement (MFA). In 1979, we commissioned a study from David Hartman, a Harvard professor of economics, in which he quoted the Council on Wage and Price Stability as reporting in 1978 that protection due to the MFA had cost consumers $2.7 billion a year, because of tariffs which then averaged 29.3 percent, and $369 million a year due to quotas. A later study, published in 1983 by Michael Munger, of the Center for the Study of American Business at Washington University in St. Louis, estimates that the restrictions cost consumers about $18.4 billion a year in 1980 dollars. Of that 18.4 billion, $3.160 billion for textiles and $11.795 for apparel was due to tariffs, and $3.416 billion for textiles and apparel was due to quotas. These figures are frightening enough, but it is safe to say that these amounts, based on 1980 and 1982 data, have and will continue to increase with the rash of bilateral agreements which have taken place since then and with the recent adoption of more stringent controls on textiles and apparel trade. For example, in mid-January 1983, when the U.S. set quotas on many categories from China, retailers predicted that the price of imported clothing would go up 20 percent or more over a period of 12 months. It is now reported that imported apparel went up 25 to 35 percent in 1984.

As I mentioned earlier, restraints affect consumers not only in price but also in choice and availability. The President of the American Retail Federation, William Kay Daines, explained it this way for a CWT Newsletter interview:

> "The MFA has had a very interesting effect in a number of ways upon consumer goods. Years ago when the MFA first came into being, you did not have, from the Far East, competition in the highly-tailored suits, blouses and other apparel that has now developed as a result of the MFA. Because of the quantitative restrictions the manufacturers abroad kept building to a higher product, trading up, and now you have sharp competition to American apparel in the exact categories where they were highly competitive many years ago. That type of competition does eliminate lower-end goods; however, if the MFA were liberalized or ended, those lower-end goods would return very rapidly."

Kay Daines hit on a very important point in this statement: the fact that the cheaper goods, the ones that attract many American consumers to buy the import in the first place, become scarce and are eventually eliminated. So that it is, unavoidably, the lower income, the fixed income individual, the one who is shopping price, the one who can least afford it who bears the heaviest burden. Import restrictions are thus the equivalent of regressive taxes - a system which America has long condemned.

I have been discussing the price and availability effects of trade restrictive policies, but there is one other factor to be considered. What of retaliation? China did, of course, in 1983 against U.S. exports of soybeans, cotton, and chemical fibers, and has indicated that it will do so again. We don't believe any of the trade experts would be surprised by this action - they would be more surprised perhaps if other major supplying countries did not retaliate also. Hong Kong, of course, being a free market, has a problem, and the Third World countries, which we claim to help on one hand and hit with export quotas on the other, are not in a position to do so. But how long will this keep up? How long before the agricultural community, pitted against the textile sector, pressures trade policy formulators into counter-retaliatory actions? And how long before the consumer feels the devastating effects of an escalated trade war?

The Textile and Apparel Trade act of 1987 (S. 549), because it calls for trade limiting actions, can be expected to bring about all of the negative consequences attributed to past protection for the domestic industry. The legislation would freeze imports of textiles, apparel and footwear at the 1986 level, impose global quotas on all supplier countries and allow for a one percent annual growth for textiles and apparel and zero growth for imported non-rubber footwear. It is the most severe and all-encompassing legislation yet to be proposed by the textile sector even though the MFA renegotiated last year, was itself broadened to cover virtually all textiles and the growth allowances further restricted. In conjunction with the MFA, tight bilateral agreements with major suppliers and unilateral restraints against smaller countries have further limited textile trade.

The domestic industry, however, joined by the footwear producers, still is not satisfied and finds it necessary to request even further protection from foreign competition. It apparently will never be satisfied until the United States imposes a total ban on imports of textile, apparel and footwear. This, of course, would be disastrous for American consumers and would have serious national economic consequences.

It has been estimated that S. 549 would increase the cost of imported textile and apparel by six percent and the domestic cost for these products by two percent. Footwear imports would go up by nine percent and domestic footwear by 10 percent. (International Business and Economic Research Corporation: "Analysis of the Impact of the Textile and Apparel Trade Act of 1987", by Laura Megna Baughman, March 1987)

The same study reveals that consumers would have to pay $223,000 for each of the less than 47,000 jobs protected in 1987. In addition, 52,000 retail jobs would be threatened by the legislation resulting in a total, loss of 5,700 jobs. Consumers would be taxed a total of $88 billon in the 10 years before the proposed law would be reviewed.

As usual in cases of trade restrictions, less expensive merchandise is the first to become unavailable and low and fixed income consumers, including unemployed workers, who must clothe their children even when not earning, are the ones who pay most dearly for this artificially induced regressive tax.

I feel certain that proponents of this legislation will attempt to discredit the exactness of these figures as they have in the past. I am certain also that further economic analyses will be made that vary slightly from the IBERG study. But that is of no importance. As consumers, we can vouch for the fact that we have had to pay substantial amounts more than necessary over the many years that the industry has received protection. We have not only paid in dollars, but also in quality and availability.

The textile, apparel and footwear industries apparently are not concerned about consumers. This is especially ironic since the textile and apparel industry is reported to be profitable-profits have doubled between 1985 and 1986; productive-capacity utilization in mills was over 95 percent in November 1986; having no overall loss of employment; and with an increase of exports of 10 percent last year according to the Department of Commerce.

CWT's major concern is the direct economic effect of trade restrictions on consumers. Therefore, we are interested as well in the overall conduct of trade. This is why we have been following closely and speaking out on issues relating to the Uruguay Round of GATT negotiations which, we believe, will be a major determinant as to the survival of a strong multilateral trading system able to contain protectionist actions through the GATT disciplines.

There is no doubt that the proposed legislation is inconsistent with the GATT in that it ignores Article XIX, the "Escape Clause," which allows temporary protection, with compensation, from imports which cause or threaten to cause serious injury to a domestic industry. The current state of the industry, as discussed earlier, belies any such finding. In the legislation, injury to the industry is merely a statement of fact which has not been researched. Moreover, the global quotas called for in the proposal are long-lasting, rather than temporary, extending for a period of at least 10 years before they are reviewed.

The proposal would also flagrantly ignore the Standstill and Rollback commitment made by GATT member nations, including the United States, at the Punta del Este Ministerial meeting preceding the start of the Uruguay Round.

CWT will continue to stress the need for a radical change in U.S. textile and apparel trade policy for as long as necessary and will continue to call for the liberalization of bilateral agreements and the elimination of the MFA for as long as the industry demands protection. The open-ended program of protection for the domestic manufacturers, a program which, by its very nature, has failed to provide the challenge necessary for the industry to confront foreign competition and market-oriented world trade must come to an end. American consumers must not be forced to subsidize ineffective trade policies any longer.

In conclusion, we would like to urge the members of this Committee to oppose S. 549, on the grounds that it is irresponsible legislation that would harm consumers; violate the GATT and jeopardize the success of the Uruguay Round; involve our largest trading partners and invite justified retaliation on their part against U.S. products. This is not the way to enhance competitiveness, expand trade, reduce the trade deficit, and open world markets to U.S. exports as called for by this Congress. These worthy goals will only be reached by avoiding the passage of unwarranted trade restrictive legislation, detrimental to workers, producers and to the public interest.

The CHAIRMAN. Mr. Carl Davis, East Coast counsel for Nike.

STATEMENT OF CARL K. DAVIS, EAST COAST COUNSEL, NIKE, INC., WASHINGTON, DC

Mr. DAVIS. Mr. Chairman, I would like to thank you and the other members of the committee for the opportunity to present my company's view on this issue. Nike, a U.S. company, whose home office is in Beaverton, Oregon, manufactures and distributes athletic footwear and sports related apparel worldwide. We employ some 3,000 people and have annual sales approaching $1 billion.

Nike functions simultaneously as a domestic manufacturer, purchaser, exporter and importer. To us, this is a killer bill. It targets the only two products which we sell: footwear and apparel.

My testimony covers three points. First, Nike has found the domestic apparel industry inflexible and unwilling to change. In the beginning, we bought 100 percent of our apparel products from domestic sources and still purchase 50 percent from U.S. companies. We would prefer to buy our apparel products from U.S. companies, and constantly attempt to locate suitable sources within the U.S. However, many domestic manufacturers are extremely uncooperative and unwilling to adapt their operations to meet our design, volume and timing requirements. In short, these firms simply have refused to respond to the needs of the changing industry. We have been forced to increase our purchases overseas.

In 1985, in preparation for my testimony before this committee on a similar bill, our apparel production manager prepared a report setting forth problems Nike faced with the domestic apparel industry. One problem he outlined was that some U.S. manufacturers refused to manufacture goods in accordance with our specifications.

For example, one mainstay of Nike's apparel business is the fleece warm up suit. Attempting to locate a suitable domestic source for these suits, Nike was confronted by manufacturers who would produce the suits only on circular knit machines without inset side panels, as requested by our designers. Told by those manufacturers to change our design or seek other production sources, we chose the latter. Foreign manufacturers were eager to meet our specifications and, thus, became the primary source for these suits.

Also, many U.S. manufacturers set unreasonable minimum order requirements. For example, the minimum quantity of some fabrics which the typical domestic producer is willing to dye is 6,500 yards per color, while offshore it is 1,000 yards or less.

Further, we have experienced repeated problems with timely delivery. Many of our U.S. suppliers are wholly unreliable in meeting delivery deadlines. Even with the additional time in ocean shipping and delays in clearing Customs, foreign-produced goods reach Nike on a more timely and dependable schedule than do those produced domestically.

The report outlined in simple terms problem after problem that Nike encountered in trying to do business with this inflexible domestic industry. Even more dramatic was the series of letters which I talked about in my written testimony.

Recently, I asked for an update on that earlier report. Our production manager prepared such an update, and contrary to the claims made by the domestic apparel industry, the problems we found two years ago have not improved. They have become worse.

As I said two years ago, we would like to expand our purchases of apparel in the United States, but cannot risk doing so. Although we have some good domestic manufacturers, they appear to be the exception rather than the rule.

Looking next to the footwear portion of the bill, this section shows a fundfamental misunderstanding of the American footwear industry, now made up principally of large multinationals which blend their American manufactured products with their imported products to present a line of footwear acceptable in style and price to the American consumer. Many of these companies do not want this bill. For example, the President of Florsheim Shoe Company recently testified before the House in opposition to this bill. This point becomes even clearer when we examine the American athletic footwear industry. This industry is dead and cannot be revived.

The non-rubber athletic industry started overseas. Later, companies, including Nike, tried producing these shoes in America but found that unlike high-cost dress shoes that can be produced and sold at a profit in the U.S., athletic shoe production is too labor intensive to survive here.

Nike opened two major factories in New England. Even though we totally revamped existing footwear factories, installing state of the art equipment and techniques, we continually lost money in these operations.

Government restrictions also thwarted our efforts to make the factories successful. Faced with the high cost and continued losses, we had no alternative but to return to the foreign production sources.

Today, the American athletic shoe industry is nonexistent. 1986 figures show that 99 percent of all non-rubber athletic footwear is now imported. Passage of this bill merely attacks athletic footwear importers and, thereby, eliminates U.S. jobs in a blind attempt to protect the nonexistent American athletic footwear industry.

This bill will not create new production jobs in the U.S. Nike and the others will not return.

My last point deals with the lack of foresight that went into drafting this measure. The bill has an effective date of January 1, 1987. As a businessman, I am already ordering for fall, 1988. Am I in violation? I don't know. We have no idea how the quotas will be allocated or administered. This bill offers no congressional road map.

Who will pay the cost? Obviously, the American consumer.

To conclude, this bill looks backward in an attempt to recreate an America of small apparel and footwear companies. Those times are gone forever and passage of this bill will not alter that fact.

We are all concerned about the loss of American jobs, but this legislation is the wrong way to address that issue. I urge you to reject emotional appeals and vote against this bill.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared written statement of Mr. Davis follows:]

TESTIMONY OF CARL K. DAVIS

EAST COAST COUNSEL

NIKE, INC.

Mr. Chairman, I would like to thank you and the other members of the Committee for the opportunity to present my company's view of this most pressing issue of proposed quotas for textiles, apparel and footwear.

Nike, Inc. is a U.S. company whose home office is in Beaverton, Oregon. Nike manufactures and distributes on a wholesale and retail basis athletic footwear and sports related apparel. The company employs approximately 3,000 persons and has annual sales revenues approaching $1 billion. As do many other companies in the apparel and footwear industries, Nike functions simultaneously as a domestic manufacturer, purchaser, exporter and importer.

Passage of S.549 would severely impact, if not devastate, our company because our two products, footwear and apparel, are the targets of this protectionist measure. Please don't allow proponents of the bill to minimize its impact: to us it is a killer bill.

Mr. Chairman, I will focus my testimony on three major points:

First, Nike would prefer to purchase all of its apparel from domestic sources. We continue to find, however, many U.S. apparel manufacturers unwilling to adapt to changing conditions in our industry and increasingly unable to fulfill our apparel manufacturing requirements.

Second, in an attempt to protect the American footwear industry, the drafters of S.549 have mistakenly included in it the athletic footwear industry--an industry which, in fact, no longer exists. Attempts to protect this sector would only impose hardships on legitimate importers and increase prices for a major portion of American consumers.

Third, the bill offers no guidance as to how its provisions would be administered or enforced. Further, the retroactive effective date provides no time for legitimate American importers to attempt to bring their business into compliance.

1. Nike Has Found The Domestic Apparel Industry Inflexible And Unwilling To Meet Changing Manufacturing Requirements Of Our Industry

When Nike established its apparel operations, we purchased 100% of our apparel products from U.S. manufacturers. Today, we still purchase 50% of those products from U.S. companies. Let me emphasize that we would prefer to buy our apparel products from U.S. companies, and we constantly attempt to locate suitable sources within the United States. However, we have found many domestic manufacturers to be extremely uncooperative and unwilling to adapt their operations to meet our design, volume and timing requirements. In short, these firms simply have refused to change from their age-old manufacturing practices to respond to the needs of a changing industry. Consequently, we have been forced to purchase an increasing volume of our apparel from overseas suppliers.

In 1985, in preparation for my testimony before this Committee on pending apparel quota legislation, I asked our apparel production manager, Dave Taylor, to prepare a report setting forth the recurring problems Nike faced in attempting to deal with the domestic apparel industry. Those problems were outlined in a handwritten report he prepared which was submitted with my testimony. The report set forth a litany of problems, including refusal to manufacture goods to our specifications, unrealistic minimum volumes, and repeated failures to meet delivery deadlines.

Taylor bolstered his report with letters from Nike, Inc. to various domestic manufacturers, illustrating the continuing frustrations we encountered in doing business with these American companies.

The first major problem Taylor detailed was that some U.S. manufacturers repeatedly refuse to manufacture goods in accordance with our specifications. For example, one mainstay of Nike's apparel business is the fleece jogger, or warm-up suit. In attempting to locate a suitable domestic source for these suits, Nike was confronted by manufacturers who would produce the units only on circular knit machines and without inset side panels as requested by our designers. Basically, those manufacturers told Nike to change our designs to meet their specifications or seek other production sources. The sports apparel market is extremely style conscious and competitive, and minor design changes can determine the success or failure of a product line. Forced to make the decision to change the design or seek other sources of production, Nike chose the latter. Foreign manufacturers were eager to meet our specifications fully and thus became the primary source of these suits.

Second, many U.S. manufacturers, we have dealt with set unreasonable minimum orders requirements. For example, the minimum quantity of twill fabric which the typical domestic producer is willing to dye is 6,500 yards per color, while an offshore producer will readily do 1,000 yards per color or less. Similar noncompetitive minimum piece requirements are imposed in other fabric manufacture and apparel sewing applications. Mr. Taylor's report illustrates this problem in referring to knit fabrics for placket shirts, such as used for tennis or leisure wear when he states:

> "...Domestically, we must commit the minimum of 1,500 yards per colorway of a design compared to 600 yards offshore. At one yard/shirt, we must purchase shirts or commit to fabric for 1,500 shirts/colorway domestically; offshore only 600 shirts/colorway....in this case, tennis business is not staggering in volume and we try to stay just in front of the demand. In the weaker colorways a purchase of even 600 shirts can be considered large, so you can imagine what 1,500 shirts/colorway means."

In an industry where style and color demands change frequently, we are not in a position to purchase large volumes and endure large inventories. Again, the foreign producers we deal with are more than willing to produce at volume levels which meet our requirements and needs.

Third, we have experienced repeated problems with timely deliveries by several of our U.S. manufacturers. The report clearly indicated many U.S. suppliers used by Nike have been wholly unreliable in meeting delivery deadlines. Consequently, even with the additional time necessitated by shipment to the United States and delays in clearing Customs, foreign produced goods consistently reach Nike's distribution facility on a more timely and dependable schedule than do many domestically produced items.

The report Mr. Taylor prepared was dramatic in its effect, for he outlined in simple terms problem after problem that Nike encountered on trying to do business with an inflexible domestic industry. Even more dramatic, however, was the series of actual letters from Nike to various American apparel companies which he attached to the report. Quoting briefly from a few of those letters:

> "It is becoming increasingly evident that you cannot or will not produce goods to our specifications, or our specifications are out of line. To the latter, I would say that our standards are well within the fashion industry standards, so it must be one of the first two choices."

From a letter dated January 5, 1984:

> "According to my figures as of 12/30/83, XXXXXXXX still owes Nike 1,257 dozen against the October/November orders, 1,238 dozen against the December orders, and 1,717 dozen against the January orders."

In a letter to another American company dated the same date:

> "As of 12/30/83, we show that XXXXXXXX still owes Nike some 4,950 dozen against November orders, 16,300 dozen against December orders, and 12,900 dozen against January orders. ...the delivery situation at XXXXXXXX has deteriorated rather than improved over the last three months. It is extremely hard for us to understand how this can be happening with all the efforts that we are putting into this thing. ...our customers continue to suffer greatly because of poor shipping performance."

And in an April 1984 letter addressing another problem:

> "...information reflected on the Contents Label often times varies from the invoice... These discrepancies prompt Nike to physically inspect 100% of your shipments."

Earlier this year, I asked our current production manager, Matt Wolff, to review and update the earlier report. Contrary to claims being made by the domestic apparel industry, we discovered the problems present two years ago have not improved. In fact, they have become worse!

As in the earlier report, Mr. Wolff discusses the continuing problems of exorbitant minimum order requirements, lead times between order and delivery twice as long as overseas, failures to meet delivery dates, and the inflexible and uncooperative attitude of many factories.

With lead times for basic yarn dyed fabrics running as long as 17 weeks domestically as compared to 8-10 weeks offshore, we are forced to commit to fabric orders much sooner than we want, thus increasing the risk of excess fabric or garment inventory. In the area of styling, many domestic producers refuse to even consider manufacturing a garment to our specifications, citing even our basic styling requirements as being "too complex." The biggest problem with domestic manufacturers, however, continues to be late delivery. Cancellations of orders by our retail customers because of our inability to obtain these domestic orders on time have cost Nike hundreds of thousands of dollars in lost sales. Unfortunately, the problem is getting worse instead of better.

As I pointed out in my testimony two years ago, Nike, Inc. would like to expand its purchases of apparel in the United States, but unfortunately cannot risk doing so.

We have some good domestic manufacturers with whom we enjoy working--unfortunately, they appear to be the exception rather than the rule. Due to its inflexibility and failure to meet production scheduling demands, the domestic apparel industry has created many of its own problems. American apparel companies such as Nike have chosen to pay ocean shipping charges, encounter delays in clearing U.S. Customs, pay high duties and deal with manufacturing sources which can only be reached by long distance communications rather than deal with inflexible domestic apparel manufacturers. Price is not the only consideration that has forced apparel companies to seek foreign sources of production.

2. Footwear Quotas Under S.549 Are Incorrectly Allocated And Attempt To Protect A Nonexistent American Athletic Footwear Industry.

Unlike the accompanying provisions in the measure pertaining to textiles and apparel, the section of the bill which covers non-rubber footwear provides for imports to be frozen at 1986 levels with no future growth. This freeze continues without even review or alteration.

In an attempt to allocate the footwear quotas, the drafters of this measure show a lack of foresight in another area. They have randomly selected 15 categories among which the quotas would be divided. Such an attempt obviously slights certain segments of the industry such as juvenile athletic. More importantly, it attempts to force styles on the American consumer by freezing the imports within the categories so that consumers are forced to live with current styles or pay a "Congressional Surcharge" to change to a style in a more restrictive quota category. We all know that American consumers are fickle and each season brings style changes. The quota categories established do not allow for these style changes, as imports within each category remain frozen.

The footwear section of the bill also shows a fundamental misunderstanding of today's American non-rubber footwear industry. The American non-rubber footwear industry is no longer comprised of small factories making hand-made shoes in towns where they have been located for decades. The American footwear industry is now made up principally of large multinational corporations which blend their American manufactured products with their imported products to present a line of footwear that is acceptable in both style and price to the American consumer.

These companies need their imports in order to survive. In recent testimony before the House Ways and Means, Trade Subcommittee on the House version of this bill (HR.1154) Ronald Mueller, President of the Florsheim Shoe Company, among the largest and best known American shoe companies, spoke out in opposition to the bill, stating:

> "...in today's competitive environment, in order to maintain our factories in the United States, we must be left free to judge consumer demand and to respond to it in the most efficient and effective manner possible on a world-wide basis. Any restriction would inhibit our ability as an American company to continue to allocate our resources in a manner which preserves American jobs by having our U.S. facilities produce the shoes for which they have a comparative advantage and to buttress their production with shoes imported from other countries when we find that the comparative advantage runs clearly in their favor."

This point becomes even clearer when we examine the so-called American athletic footwear industry. This industry is dead and cannot be revived.

The non-rubber athletic footwear industry started overseas. Pioneered by giants in the industry like Adidas and Nike, sales of the foreign made products exploded, not only in this country, but on a world-wide basis. Many companies, including Nike, tried to produce these products in America. Unfortunately, those attempts were a mistake. Unlike high cost dress shoes that can be produced and sold at a profit in this country, athletic footwear production is too labor intensive to survive here.

Nike is all too familiar with the problem of American athletic shoe production. In an attempt to bring a portion of our production to the United States, Nike opened and operated two major factories in New England. Even though we totally revamped existing footwear factories, installing state of the art equipment and techniques, we found ourselves continually losing money in these operations. Not only were the labor rates higher than in our foreign factories, but governmental restrictions also thwarted our efforts to make the factories successful. At the time we opened our factory in Saco, Maine in 1978 we were paying 6 cents/pair for workmens compensation. In 1985 when we made the painful decision to close the factory, our workmens compensation contributions had skyrocketed to over a dollar per pair. Faced with costs such as these, we had no alternative but to return to our roots, that is, to go back to the foreign production sources where we began.

The American athletic footwear industry is nonexistent. The latest figures available show that 99% of all non-rubber athletic footwear is now imported. Even the remaining 1% is manufactured by companies importing the vast majority of their products. (As Pogo once said in the comic strips, "we have found the enemy and it is us.") I urge the Committee not to wound an existing American industry, athletic footwear importers, and eliminate American jobs in some blind attempt to protect this nonexistent American athletic footwear industry. To be blunt: this bill will not create new production jobs in America, as Nike and the others will not return. The only result will be higher prices for consumers who can least afford the increases. Also, don't be mislead by claims that companies in America will convert to athletic footwear production. As I stated above, we tried to do this already, and it just doesn't work.

3. The Bill Contains No Administrative Guidelines And Ignores Its Enormous Effects.

The bill as presently drafted provides that it will become effective January 1, 1987, months ago. Even if the bill were to pass with little debate and be signed into law, the process would not be accomplished until near the end of 1987.. In the meantime, Nike and every other apparel and footwear importer in the United States continues to conduct business without knowing if we may already be violating some law yet to be enacted. Today, Nike is in the process of finalizing specifications and placing orders for the Fall season of 1988. Part of the process includes securing quotas to enter the goods into the United States. That quota is pursuant to the current bilateral agreements existing between the foreign supply countries and the United States. Some of these bilaterals have been renegotiated with much more restrictive provisions than were in existence when Congress passed a similar apparel bill two years ago. Even though we comply with those laws for our imports this year and are already making preparations to do so next year, we could find ourselves suddenly blind-sided by this new law and in violation of its provisions should the bill be enacted as currently drafted with its retroactive effective date.

Further, the bill provides no guidelines for how the required global quotas, will be allocated or administered. Instead, it merely calls for the Secretary of Commerce to establish rules and procedures for its administration, with no Congressional road map at all. In some circles, this is known as "punting the issue." The time necessary to implement and set procedures for enforcement of the bill will be substantial. Contrary to what the drafters may think, these procedures and the personnel necessary to carry them out, will result in additional costs. Any plan will meet with tremendous opposition as country after country and company after company come forward to protest the inequities that will plague any such system. Further, someone has to pay the bill and the American consumer will be forced to bear the additional costs.

This bill looks backward in an attempt to recreate an America of small apparel and footwear companies. Those times are gone forever, whether we like it or not, and passage of this bill will not alter that fact. I don't dispute the emotional appeal of cardboard cutouts of apparel/footwear workers, but this committee has withstood emotional appeals in the past. We all are concerned about loss of American jobs, but this legislation is the wrong way to address the issue. I urge you to reject this bill, and in so doing, to declare the American consumer to be the winner.

The CHAIRMAN. Mr. Philip Lelli, Port Liaison, International Longshoreman and Warehouse Union. Mr. Lelli.

STATEMENT OF PHILIP M. LELLI, PORT LIAISON, INTERNATIONAL LONGSHOREMEN AND WAREHOUSEMEN UNION, LOCAL 23, TACOMA, WA

Mr. LELLI. Good afternoon, Mr. Chairman, and members of the committee. My name is Philip Lelli and I am here today on behalf of the 737 members of Local 23, International Longshoremen and Warehousemen Union in Tacoma, Washington,

It is a real honor for me to be here representing a group of men and women who have earned an international reputation for their efforts to create jobs by expanding trade both exports and imports on the West Coast.

As you may know, we earn our livelihood primarily by loading and unloading ships, and so our future is directly dependent on the volume of cargo moving across the docks.

Some of you may recall in 1958 an agreement was signed called the "Manning and Mechanization Agreement" which allowed for the automation and mechanization of ports and shipping activities without union restriction. Well, this eliminated a lot of the mule work that we used to do. It also deeply cut into the ranks of the longshore union. However, for reasons that I would like to explain, this has not been the case with Local 23.

In fact, we are the only longshore local on the entire West Coast which has seen an increase in membership and an increase in manhours since the 1960s. The reason for this is simple.

We realized even back then that the only way we could protect our jobs, much less increase them, would be to increase the tonnage moving across the docks. Furthermore, we recognized that this was just as much our responsibility as it was management's. And we took it upon ourselves to develop a cooperative approach towards keeping our current customers satisfied by working with the port to attract new customers and to create work opportunities for our members.

I think the results speak for themselves. Since that period of time, our tonnage has increased 57 times over what it was in the 1960s, and, as I said, our manhours have grown steadily, recently, for example, mostly because of the productivity and the positive attitude to steamship lines—SEALAND and MAERSK—decided to locate new major terminals in the Port of Tacoma.

Last year, because of my position as President of the local for 16 out of the last 20 years, I was given the first leadership award by the Tacoma-Pierce County Economic Development Board for our efforts to bring new business to our area. Our members are also frequently included in trade promotions by the port and others seeking new customers for our products or use of our marine facilities.

I have also had the honor of representing our local on the Governor's Advisory Committee on International Trade and Development from 1983 to 1985.

The reason I mention all this is because I firmly believe that a positive approach to attracting new jobs is in the best interest of the working men and women of this country. I further believe that the best approach to tackling problems like the trade deficit is to find ways to expand trade, not to restrict it.

Textiles and apparel imports are critically important to our members. In 1986, more than $3.8 billion of textiles and apparel products came across the docks in Tacoma and Seattle alone. There are a lot of jobs at stake, not only on the docks but also in trucking, train, warehousing, and offices throughout our State.

There is another side to this which deeply affects us. Washington State is a major export of timer and agricultural products, and our best customers tend to be the same countries that sell us textiles and apparel products. And, in fact, I found this interesting. Last year, we exported just under $4 billion in timber and agricultural products from Washington State, just slightly more than the value of the textile and apparel products that we imported. Much of that volume went from the farms and forests of Washington State across the docks to China, Korea, Taiwan, Hong Kong and Japan, and no doubt were purchases made by dollars earned from selling us their products.

What bothers me the most about this textile bill, S. 549, is that it threatens the jobs of our members. But it also bothers me because I think the whole approach is negative and won't do anything to improve the situation of the U.S. textile industry in the long run.

As I said earlier, I believe the policy for our government ought to be to expand trade, not to restrict it. It seems to me that we ought to try to create jobs in the U.S. by trying to expand our exports of textile products. And if there are any other steps which need to be taken, other than trade restrictions, to improve the situation for the domestic textile industry, I would encourage you to look at them.

Thank you for allowing me to testify.

[The prepared statement of Mr. Lelli follows:]

STATEMENT BY
PHILIP LELLI
BEFORE THE SENATE FINANCE COMMITTEE

Good afternoon, Mr. Chairman and members of the committee. My name is Philip Lelli and I am here today on behalf of the 737 members of Local 23 of the International Longshoremen's and Warehousemen's Union in Tacoma, Washington.

It is a real honor for me to be here today representing a group of men and women who have earned an international reputation for their efforts to create jobs by expanding trade--both exports and imports--on the West Coast. As you may know, we earn our livelihood primarily by loading and unloading ships and so our future is directly dependent on the volume of cargo moving across the docks. Some of you may recall back in 1958 an agreement was signed called the Manning and Mechanization Agreement which allowed for the automation or mechanization of port and shipping activity without union restrictions. While this eliminated a lot of the mule work that we used to do, it also cut deeply into the ranks of the longshore unions. However, for reasons that I would like to explain, this has not been the case with Local 23. In fact, we are the only longshore local on the entire West Coast which has seen an increase in our members and an increase in our manhours since the early 1960's.

The reason for that is simple: We realized even back then that the only way we could protect our jobs, much less increase them, would be to increase the tonnage moving across the docks. Furthermore, we recognized that this was just as much our responsibility at it was management's and we took it upon ourselves to develop a cooperative approach toward keeping our current customers satisfied, by working with the Port to attract new customers and to create work opportunities for our members.

I think the results speak for themselves. Since that period of time, our tonnage has increased six or seven times over what it was in the early '60's and, as I said, our manhours have steadily grown. Recently, for example, mostly because of our productivity and positive attitudes, two steamship lines, SeaLand and Maersk, decided to local major new terminals at the Port of Tacoma. Last year, because of my position as president of the Local for 16 of the last 20 years, I was given the first Leadership Award by the Tacoma-Pierce County Economic Development Board for our efforts to bring new business to the area. Our members are also frequently included on trade missions by the Port and others seeking new customers for our products or users of our marine facilities. I also had the honor of representing our Local on the Governor's Advisory Committee on International Trade and Development from 1983 through 1985.

The reason I mentioned all this is because I firmly believe that a positive approach to attracting new jobs is in the best interests of working men and women in this country.

I further believe that the best approach to tackling problems like the trade deficit is to find ways to expand trade, not restrict it.

Textile and apparel imports are critically important to our members. In 1986, more than $3.3 billion worth of textile and apparel products came across the docks in Tacoma and Seattle alone. There are a lot of jobs at stake here, not only on the docks but also in trucks, on trains, in warehouses and offices throughout our state.

There's another side to this too which deeply affects us. Washington state is a major exporter of timber and agricultural products and our best customers tend to be those same countries that sell us textiles and apparel products. In fact, I found this interesting. Last year, we exported just under $4 billion in timber and agricultural products from Washington state--just slightly more than the value of the textile and apparel products that we imported. Much of that volume went from the farms and forests of Washington state across our docks to China, Korea, Taiwan, Hong Kong and Japan and was no doubt purchased with dollars earned from selling us their products.

What bothers me most about this textile bill, S. 549, is that it threatens the jobs of our members. It also bothers me because I think the whole approach is negative and won't do anything to improve the situation of the U.S. textile industry in the long run. As I said earlier, I believe the policy of our Government ought to be to expand trade, not restrict it. It seems to me we ought to be trying to create jobs in the U.S. by trying to expand our exports of textile products. And, if there are other steps which need to be taken, other than trade restrictions, to improve the situation for the domestic textile industry, I would encourage you to look for them.

Thank you for allowing me to testify.

The CHAIRMAN. Thank you very much, Mr. Lelli.

Mr. Tandler is the President and CEO of Tandler Textile of New York. Mr. Tandler.

STATEMENT OF MARTIN J. TANDLER, PRESIDENT AND CHIEF EXECUTIVE OFFICER, TANDLER TEXTILE, INC., NEW YORK, NY

Mr. TANDLER. Mr. Chairman and members of the committee, my name is Martin Tandler, President and Chief Executive Officer of Tandler Textile, Incorporated, a New York-based textile, apparel and converting and importing firm.

I am a member of the Board of Directors of the Textile Distributors Association of America, an organization comprised of American textile converters, vertical textile mills, fiber companies and finishers. In short, the vast majority of the American textile industry.

I am also a member of the American Association of Exporters and Importers. I am a member of both groups because my company is intensively involved in both the domestic production and the importation of textiles.

I will summarize my prepared testimony and ask that the entire statement be included in the record. I also request, Mr. Chairman, that a portion of the testimony presented to this committee in 1985 also be printed in the record following my prepared statement since I will be making reference to it in my remarks.

The CHAIRMAN. Yes, of course. We will take it for the record.

Mr. TANDLER. I have been deeply involved with both domestic and foreign textile goods for the past 25 years. My company produces fabrics of high quality with $40 million in annual sales volume. We produce fabrics in the United States, Asia and Europe.

I appear today in my individual capacity to state my opposition to S. 549, the Textile and Apparel Trade Act of 1987. I similarly oppose the enactment of S. 680, last year's textile quota bill.

In preparing for today's hearing, I reviewed the testimony before this committee in 1985 and discovered that little has changed with respect to the arguments advanced by the domestic industry and the disastrous implications this proposed legislation would have for the nation and my company in particular. The legislation is fundamentally flawed and should be rejected.

I wish to emphasize three points today. First, although we prefer to buy domestically, my company purchases the bulk of its fabrics abroad because domestic textile mills either cannot or will not provide the high quality fabrics our customers demand.

Second, enactment of this legislation will only further infringe an industry that, through short-sightedness and inflexibility, has failed to meet legitimate foreign competition.

Finally, my company, consumers and many other businesses will be hurt if this draconian legislation is adopted. We urge you to reject it. This bill is unfair and unnecessary.

Let me cover these points in more detail. First, we prefer to buy goods made in America whenever possible because most of our customers manufacture their garments in the United States. However, we import the majority of our production. I have tried to work with the best American textile mills for years, begging and pleading that they produce goods to meet my customers' quality specification.

I would, of course, prefer to avoid the need to import fabric, and thereby also avoid the risk and problems of international trade. The best mills in America have consistently refused my request. They have informed me repeatedly that they cannot and will not produce fabric of the quality that I import from Japan, and I might add, other countries as well.

Even offering to pay two and three times the price I am paying to Japanese mills, the answer from the U.S. mills have consistently been no.

This, by the way, is fairly common knowledge throughout the American textile industry. It is not an industry known for its quality.

That brings me to my second point. The enactment of this legislation will only further entrench the industry and make it even less responsive to the needs of the consumer. U.S. textile mills already make demands which make doing business domestically extremely difficult. U.S. textile mills demand larger minimum orders, offer fewer colors, rarely make exceptions to their standard operating procedures, and even make financing and credit procedures more difficult than their Japanese or European counterparts.

I have been a party to hundreds of examples of these practices which have been going on for years and which continue today.

Finally, as I said at the outset, this bill should be rejected because it is both unnecessary and unfair. It is unfair to the American consumer. Since the renegotiation of our bilateral agreements with Hong Kong, Korea, Taiwan and Japan in the last year, domestic textile prices have risen at least an average of 25 percent. The price of raw cotton continues to rise. The price of wool is up between 25 and 30 percent. Shortages, both real and manipulated, are creating further volatility. Every major textile mill is booked to capacity well into 1988. Consequently, we now have a rampart seller's market.

The legislation is unnecessary because the domestic textile industry has not only survived, it has prospered.

Let me read some recent headlines from Trade newspapers: "Westpoint Pepperhill, net up 85.9 percent the first quarter"; "Net soars in quarter common year at DuPont Fibers"; "Springmill profit balloon at fourth quarter, year"; "Westpoint Pepperhill to boost capital spending 53 percent," et cetera, et cetera, et cetera.

I see my time is running out. If this sounds like an industry on the verge of extinction, the American consumer is entitled to a redefinition of that word. The domestic industry will tell you that the reason business is good——

The **Chairman**. Your time has expired, Mr. Tandler.

Mr. **Tandler**. Thank you.

The **Chairman**. Your statement will be taken for the record in its entirety.

[The prepared statement of Mr. Tandler follows:]

STATEMENT
OF
MARTIN TANDLER
PRESIDENT AND CHIEF EXECUTIVE OFFICER
TANDLER TEXTILE, INC.

Mr. Chairman and Members of the Committee:

My name is Martin Tandler, President and Chief Executive Officer of Tandler Textile, Inc., a New York-based textile apparel converting and importing firm. I am a member of the Board of Directors of the Textile Distributors Association of America, an organization comprised of American textile converters, vertical textile mills, fiber companies, and finishers--in short, the vast majority of the American textile industry. I also am a member of the American Association of Exporters and Importers. I am a member of both groups because my company is intensively involved in both the domestic production and importation of textiles.

I have been deeply involved with both domestic and foreign textile goods for the past 25 years. My company produces fabrics of high quality, with $40 million in annual sales volume. We produce fabric in both the United States and Asia.

I appear today in my individual capacity to state my opposition to S. 549, the Textile and Apparel Trade Act of 1987. I similarly opposed enactment of S. 680, last year's textile quota bill. In preparing for today's hearing, I reviewed testimony before this Committee in 1985 and discovered that little has changed with respect to the arguments advanced by the domestic industry and the disastrous implications its proposed legislation would have for the nation and my company in particular. The legislation is fundamentally flawed and should be rejected.

I wish to emphasize three points today. First, although we prefer to buy domestically, my company purchases the bulk of its fabrics abroad because domestic textile mills either cannot or will not provide the high quality fabrics our customers demand.

Second, enactment of this legislation will only further entrench an industry that through short-sightedness and inflexibility has failed to meet legitimate foreign competition. Finally, my company, consumers, and many other businesses will be hurt if this draconian legislation is adopted. We thus urge you to reject it. This bill is unfair and it is unnecessary.

Let me cover these points in more detail. First, we prefer to buy goods made in America whenever possible because most of our customers manufacture their garments in the United States. However, we import the majority of our production. We import from Japan, for example, largely because the quality of Japanese fabric is so far superior to its American counterpart that often there is no comparison.

I have tried to work with the best American textile mills for years, begging and pleading that they produce goods to meet my clients' quality specifications. I would, of course, prefer to avoid the need to import fabric (and thereby also avoid the risks and problems of international trade). The best mills in America have consistently refused my requests. They have informed me repeatedly that they cannot and will not produce fabric of the quality that I import from Japan. Even offering to pay two to three times the price I am paying the Japanese mills, the answer from the U.S. mills has consistently been no.

With all of its competitive advantages and longstanding domestic demand for its products, why do U.S. textile manufacturers continue to clamor for more and more protection and why do so many of we U.S. fabric companies continue to do a major portion of our business with foreign producers? It is not because we like being involved with the complications of dealing with incredibly restrictive quotas and expensive tariffs. It is not because we prefer the complications of telexing suppliers and dealing with time differences over the use of a simple local telephone call. It is not because we enjoy taking the additional risks involved in all foreign trade dealings. It is not because we wish to increase the number of our employees by hiring the additional personnel necessary to handle these tariff, quota, shipping, warehousing, financial, and communications problems. It is because U.S. producers have consistently remained inflexible, unimaginative, and insensitive to the needs of the fashion industry.

That brings me to my second point: Enactment of this legislation will only further entrench the industry and make it even less responsive to the needs of consumers. U.S. textile mills already make demands which make doing business domestically extremely difficult. U.S. textile mills demand larger minimum orders, offer fewer colors, rarely make exceptions to their "standard operating procedures", and even make financing and credit procedures more difficult than Japanese or European textile people. I have been a party to hundreds of examples of these practices which have been going on for years and which continue today.

Unfortunately, the U.S. industry has had and continues to have a "mass market" approach, characterized by giant runs of commodity goods. U.S. manufacturers are not responsive to either consumers or to converters. They do not want to be bothered with smaller, more flexible production of specialized fabric. U.S. manufacturers have consistently refused to provide the service which the fashion industry requires. Tougher quotas and higher tariffs will not change this fact. Rather, further protection from legitimate foreign competition will only perpetuate the complacency, lack of quality consciousness, and competitiveness which characterizes the U.S. textile industry today.

Further limiting Tandler Textile's ability to purchase high-quality fabrics will not in any way insure or result in the production of these fabrics by U.S. mills. It will result in lost business for Tandler Textile and its network of supporters (brokers, transporters, warehousers, etc.) and our clients (U.S. garment manufacturers). In other words, it will result in lost revenues and lost jobs.

As I said at the outset, this bill should be rejected because it is both unfair and unnecessary. It is unfair to the

American consumer. Since the renegotiation of our bilateral agreements with Hong Kong, Korea, Taiwan, and Japan in the last year, domestic textile prices have risen on average at least a dramatic twenty-five percent. The price of raw cotton continues to rise. The price of wool is also up between twenty-five and thirty percent. Shortages, both real and manipulated, are creating further volatility. Every major American mill is booked to capacity well into 1988. Consequently, we now have a rampant seller's market.

The legislation is unnecessary because the domestic industry has not only survived, it has prospered. Let me read some recent headlines from our trade newspapers:

1. "WestPoint Pepperell Net Up 85.9% In 1st Quarter" (Womens Wear Daily, January 14, 1987);
2. "Net Soars In Quarter, Year At DuPont's Fibers Division" (Daily News Record, January 29, 1987);
3. "Springs Mills Profits Balloon in 4th Quarter, Year" (Daily News Record, February 4, 1987);
4. "WestPoint Pepperell To Boost Capital Spending 55% In '87" (The Atlanta Constitution, January 29, 1987);
5. "Swift Textiles to Expand, Up Denim Output By 50%" Daily News Record, March 12, 1987);
6. "Cotton Biz Had A Ball in '86; '87 Looks Better" (Daily News Record, January 7, 1987);
7. "Man-Made Fiber Execs See Another Good Year" (Daily News Record, January 7, 1987);
8. "Buyers Rushing To Find Fabrics; Prices Still Climb" (Daily News Record, March 28, 1987);
9. "Textiles Jobs Up 20,000 In Year" (Daily News Record, April 6, 1987);
10. "Increase In South Carolina Apparel Jobs Seen Continuing; New Plants on Horizon" (Daily News Record, April 14, 1987);
11. "Textile, Apparel Jobs Up, Jobless Rate Off in June" (Daily News Record, July 6, 1987);
12. "Mill Execs See Denim Boom Holding Up Through Yearend" (Daily News Record, March 12, 1987); and
13. "Mills Planning to Spend $2B On Plants In '87" (Daily News Record, June 10, 1987).

If this sounds like an industry on the verge of extinction, the American consumer is entitled to a redefinition of that word.

The domestic industry will tell you that the reason business is good is because imports have driven our mills out of business. In fact, plant obsolescence, poor management, and technological improvements have to a major extent contributed to the consolidations that have taken place in our domestic textile industry.

In the face of all of this, it is completely unfair to ask American consumers to continue to subsidize our textile industry. We hope you will reject this legislation.

Thank you.

The **Chairman**. You repeatedly state that the textile industry is not known for its quality and its productivity. Then you turn around and state that they have got their sales at record levels and are running at capacity. Those seem to be somewhat contradictory to me. Apparently the quality is reasonably good or I cannot imagine it selling at those levels.

Now let me also say, Miss Brown, you stated that consumers have been subsidizing ineffective trade policies. When I look at this trade deficit, and I look at this international debt that is accruing, I think perhaps that ineffective trade policies may have been subsidizing consumers in this country. What is going to happen to consumers when we have to start paying back all of that international debt?

Mrs. **Brown**. It is going to depend, Mr. Chairman, on what legislation is passed and what the Administration does in reaction to our trade deficit.

I am absolutely convinced, and I think a great many other people are too, that no one is ever going to benefit from trade restrictive legislation, exports or imports, or from any barriers to trade.

Granted, we are not in a free trade world, which is absolutely no reason not to be looking and working towards a free trade world. We are not asking for any kind of unilateral disarmament. We are asking for the kind of sound negotiations that have seen us through a lot of trade problems in the past.

I would think that consumers, rather than being subsidized over the years by cheap imports; are being taxed unfairly and I do not like the term "cheap imports" because there are some cheap imports and there are some not so cheap imports. But although they have benefited from reasonably open trade policies on the part of the United States, there are still a great many trade barriers in the United States that have impeded some of these benefits from reaching consumers and have been extremely costly to the public.

The **Chairman**. I will not ask the panel any additional questions because we are striving as much as we can to get a quorem here and report this bill out. But I will now call on the other members of the Senate who are here in the sequence of their arrival. Senator Packwood.

Senator **Packwood**. Mr. Tandler, I am curious, if you could follow up on the Chairman's question. There is no question that the textile industry is doing very well in terms of employment, in terms of profit, in terms of productivity, but how can they be doing so well if their quality and their responsiveness and their service is so bad?

Mr. **Tandler**. It is an oversimplification in my response. At this point in time in many areas it is the only game in town. The bilateral agreements are in effect. It has made it virtually impossible to get many categories of fabric into this country from practically anywhere.

So if you want to buy fabric, that is where you have to go.

In terms of quality for certain types of fabrics, the American textile industry does produce them very effectively and very well. There is simply—it is not a diversed group of fabrics. They are not noted for their diversity or more interesting kinds of things or flexibility. Rayon is an example.

Because quotas were based on importation into this country two or three years ago when rayon was not a particularly fashionable fabric, very small quantities can be imported here. It is impossible to get rayon in this country. Therefore, the American rayon industry is going crazy and deliveries are well out into the middle of next year, and prices have risen roughly 50 or 60 percent from where they were six to eight months ago.

Senator **PACKWOOD**. Mr. Davis, let me pursue if I might two questions with you. One will follow on Mr. Tandler's. Give me some more of your experiences because you and he had the same kind of testimony.

Domestic manufacturers just were not interested in what you wanted to order.

Mr. **DAVIS**. Surprising as it may seen, it sounded like Mr. Tandler and I got together to prepare our testimony, but I have not seen him since we were here two years ago.

Senator **PACKWOOD**. The reason I asked the question is that, Nike, all things considered, is a relatively large athletic shoe and apparel producer. And if you have problems, what would a smaller company have who does not even want to order as much as you do?

Mr. **DAVIS**. That is correct. We are surprisingly one of the largest apparel companies in the United States and it is only a portion of our business being dominated.

Senator Packwood, in my report I did not have the room to add the reports that I alluded to. One by my production manager two years ago and and then an update. Those reports talked very directly at this, and the difficulties we have had in doing business, and include actual letters from our company to apparel manufacturers in this country saying we cannot do business with you. Please ship our order from three months ago. I have a copy of this. I would ask that it be included in the record, if I might, because I think it so dramatizes the point you are raising here.

The **CHAIRMAN**. Without objection, it will be done.

[The reports follow:]

port of Dave Taylor, Nike Apparel Production Manager,
Prepared Sept. 5,1985

Purchases

Attached is summary of purchases for FY 85 contractor, domestic + off-shore. I think there is a gross misconception as to how NIKE does business.

As you can see, at first cost we still purchase over 50% of our goods domestically.

If we can make a product domestically we do. Shipping times are obviously substantially shorter and it's much easier to pick up a phone and communicate with a domestic factory.

We go off-shore when we have to as illustrated in examples. I think we support the domestic industry to the extent we're able to

Fabrication

Minimum dye-lots are much more reasonable in the fabrics off-shore vs. domestic. For example here are some comparisons and what each dye-lot yields for woven fabrics such as twill and poplin

DOMESTIC

6500 yards/color (minimum dye lot)

PANT (1.5 yds/pc) = 4300 pcs

DETAILED SHORT (.8yds/pc) = 8100 pcs

BASIC SHORT (.5yds/pc) = 13,000 pcs

OFF-SHORE

1000 yds/color (minimum dye lot)

PANT (1.5yds/pc) = 670 pcs

DETAILED SHORT (.8yds/pc) = 1250 pcs

BASIC SHORT (.5yds/pc) = 2000 pcs

We're in the fashion business, i.e. colors and styles change constantly. We can get stuck with a lot of fabric domestically if we drop out of a color and haven't utilized a full dye lot (and believe me, it has happened often; we have an excess fabric inventory of over $1,000,000 due partly to the above).

In a typical fashion pant we try not to order more than 50-75 dozen / color at a time in order to stay just ahead of the demand for the product, so unless the product / color carry for a while we end up with fabric. A style such as this will usually have six colors so domestically we have to commit to approx 39,000 yards of fabric right out of the blocks compared to 6,000 yards off-shore

Another example is yarn dyed knit fabrics for placket shirts (striped tennis shirts, leisure shirts). Yarn must be dyed before being knit into the desired colors / designs. Domestically we must commit to minimum of 1500 yds per colorway of a design compared to 600 yds off shore. At one yard / shirt we must purchase shirts or commit to fabric for 1500 shirts / colorway domestically; off-shore only 600 shirts / colorway.

Again in this case, tennis business is not staggering in volume and we try to stay just in front of the demand. In the weaker colorways a purchase of even 600 shirts can be considered large, so you can imagine what 1500 shirts / colorway means.

In actual content of fabrics, fleece is an example where we have had problems domestically. The bulk of our fleece business utilizes [illegible] [illegible] of this nature.

In a nutshell off-shore manufacturers are more flexible in terms of fabrications and quantities than domestic manufacturers, and in the constantly changing part of the business we deal with we must go off-shore to get this flexibility

fleece. Domestically the major fleece manufacturers run blends of poly/cotton and acrylic/cotton. To get the true grey heather effect and to improve the fabrics characteristics (lower shrinkage, more durability) we run a poly/rayon/cotton fleece.

We approached domestic mills about doing this blend for several seasons. They were unwilling to accomodate us, as to make this blend would entail some development and retooling. They would rather walk away from the business that go to any effort to gear up a new product.

Because of this we started moving our fleece off-shore (Fall 83) in order to get what we wanted and by Fall 85 we make about 80% of our fleece off-shore.

In addition domestic fleece mills require huge production runs to make a style. Normally for one style we have to purchase a minimum of 600 dozen/style and 200 dozen/color in one production run (if we have 5 colors we have to order 1000 dozen in one shot). If we did run continuous styles and colors we could probably deal with these quantities, but since we are in a rapidly changing sector of the business there is no way we can deal with quantities.

Styling

Warmups are a major part of our business and there aren't a whole lot of contractors domestically who can make warmups.

The big fleece manufacturers do not make them because they are not geared to labor intensive items such as this. ______ has priced fleece warmups for us, but not in their USA plants; they prefer to do them in their Costa Rica operation.

And fabrication plays a role here as well. The majority of our warmups are in fleece and to get a suitable fabric we have to go off-shore anyway.

It's tough to be specific on this category. We do make warmups in the US where feasible, such as when a domestic fabric is used, but we have yet to find a volume manufacturer who can fit our needs and we have yet to find the domestic fabric supply in fleece and 87/13 that fits our needs.

Fleece separates, again a major part of our Fall business, don't fit into domestic manufacturing operations either. An example is the Malibu group which requires side seaming (for fit) and set in stripes. When presented to domestically fleece manufacturers they would only consider the program if we allowed them to change our design and patterns so that the goods could be manufactured as tubular goods with bulkly set on stripes. To get what we wanted we had to go off-shore to avail of more flexible manufacturing capabilities.

Obviously price plays into the above on how much a manufacturer will do for you in terms of fashion work. Most domestic manufacturers will tell us up front that they can't or don't want to make certain types of items for us because they'll have to modify their production lines and don't feel they'll be competitive price wise in doing this. So tied into this is the *flexibility* issue. Again we go off-shore because manufacturers are more flexible and responsive to our needs.

Delivery

Problems arise here no matter where you make goods, but two examples that crushed us domestically occured on tennis shirts and basic fleece.

We used to make most of our tennis shirts at ________, domestically. We were stuck with the color minimums as illustrated in the Fabrication section, plus ________ depended upon a fabric mill to supply piece goods to them. For consecutive seasons it took nearly 6 months from order date to delivery of finished goods, partly because ________ was dependant on the fabric mill, which put no particular priority on our goods because our orders were much smaller than other customers; and partly because ________ had trouble making what we specified. They weren't flexible in their production.

In order to get the quantities we wanted in reasonable delivery times we went off-shore.

See letters to ______ in which we pushed them for delivery with little success

In basic fleece we're at the whim of the manufactures. There are only 3-4 major fleece mills and they all run their own in-house program as well. If business is good for their own merchandise, then obviously their contract work for people like NIKE gets pushed aside.

We have run major programs with for several seasons in basic items and have never been delivered on time. The excuses are numerous, and it may have been inevitable anyway for NIKE, but we have pretty much discontinued basic fleece items in our Fall 85 line because we could not deliver to our customers because ______ could not deliver to us. Ironically enough it appears ______ has no problem delivering their own brand to customers.

If we do basic fleece again in any volume we'll have to consider going off-shore to more reliable sources; sources that will give our production some priority.

See letters to ______ outlining delivery problem.

Apparel Division

FILE

October 11, 1983

Dear :

As Nike continues to grow, it becomes more and more important for us to maintain a high level of consistency and quality in our products.

We have in the past asked you to achieve certain quality levels on various fabrications that you produce for Nike. It is becoming increasingly evident that you can not or will not produce goods to our specifications, or our specifications are out of line. To the latter I would say that our standards are well within the fashion industry standards, so it must be one of the first two choices.

My purpose here is to emphasize the fact that we need and expect your full cooperation with regards to this problem. The people who are requesting fabric and garment samples from you for testing are doing so to help you achieve an obtainable level of quality for Nike production.

If you have any questions or problems with regards to our testing procedures or the results of our tests, please let me know. It is my intention that we communicate freely on this and other areas of concern.

Sincerely,

John R Woodman

John R. Woodman
Director of Domestic Productions
Nike Apparel Division

JRW/dm

cc:

Apparel Division

NIKE

October 25, 1983

FILE

Dear

shipped 659 dozen to us last week, leaving 2,238 dozen to be shipped by 11/15 as per our agreement. This means that you need to continue to ship to us at better than 700 dozen a week to meet your commitment. According to my calculations here this morning, you need to continue to ship at a rate of around 650 dozen a week on through 1/15/84 in order to be on time with December and January orders. Let me know if you disagree with this.

Best Regards,

NIKE, INC.

Larry Stephens

never made it

Larry Stephens
Contract Administrator

LS/km

cc:

FILE

NIKE

Apparel Division

January 5, 1984

Dear

continues to be caught in a late delivery situation on their shipments to Nike. According to my figures as of 12/30/83, r still owes Nike 1,257 dozen against the October/November orders, 1,238 dozen against the December orders, and 1,717 dozen against the January orders. Based on your shipping schedule of 1,000 dozen per week, this means you are running about two weeks behind in total against the January shipments. Obviously, any October, November and December orders are extremely late at this point.

The situation is even worse when we look at the mix of the shipments we have been getting compared to our needs. Steve Brrokshire was in your plant today with a very critical expedite list of several styles that are desperately needed to cover some of our commitments to our customers. It is imperative that work to meet the needs on that list. Nike's patience with the late shipments out of , is now practically worn out and we must see some shipments of specific style color sizes or we're going to see the delivery of the entire Tennis line to our customers jeopardized again because of .

Please get personally involved with the expedite list from Brookshire and respond to me as to what can be done.

Regards,

NIKE, INC.

Larry Stephens
Contract Administrator

LS/dk

cc:

FILE

NIKE

Apparel Division

November 4, 1983

only 20% of what they said they could

Dear .

Shipments to Nike from for the week ending 10/28/83 totalled 1,003 dozens, which is considerably short of the 6,000 dozen needed per week to be on time by 12/15/83. I am sure you will be prepared to outline the delivery schedule to the people in Beaverton next week. Let's stay in communication regarding this schedule on a weekly basis.

Best Regards,

NIKE, INC.

Larry Stephens

Larry Stephens
Contract Administrator

LS/km

cc:

Apparel Division

November 9, 1983

9 months after [illegible]

Dear

For the week ending 11/4/83, I show that shipped 2,866 dozen to Nike, which again is considerably short of the 6,000 dozen you need to be shipping. The shipments were spread out over eight different periods. This includes the month of May, June and July, which you maintained are closed out and complete. We are still looking for some "catching-up" type of shipments.

Please call if you have any questions.

Best Regards,

NIKE, INC.

Larry Stephens

Larry Stephens
Contract Administrator

LS/km

cc:

FILE

NIKE

Apparel Division

January 5, 1984

all [illegible]

Dear

As of 12/30/83, we show that still owes Nike some 4,950 dozen against November orders, 16,300 dozen against December orders, and 12,900 dozen against January orders. This represents some 32,000 plus that should be out of by January 15, if your deliveries are to be on time to us. It appears to me that the delivery situation at has deteriorated rather than improved over the last three months. It is extremely hard for us to understand how this can be happening with all the efforts that we are putting into this thing. Our patience is wearing very thin and shipments to our customers continue to suffer greatly because of poor shipping performance.

After all these many months and years, is there nothing that can be done to improve your deliveries? We must have some assurance - not just verbally - but in some more tangible way that intends to deliver on time to us.

What must be done? We don't know what else to do. Please respond.

Regards,

NIKE, INC.

Larry Stephens
Contract Administrator

LS/dk

cc:

Apparel Division

FILE

November 23, 1983

Dear :

I see that shipped just over 4,400 dozen for the week ending 11/18/83. This would be a substantial shipment except that there was little or nothing shipped the previous week. You still need to be doing better than 6,000 dozen a week to be caught up by January orders. There is no way you can catch up at the current rate of shipments. And they never did

Could you get back to us in writing as to how you think your delivery position should be by January 15th? Somehow, must get caught up on this shipping schedule. Please advise.

Regards,

NIKE, INC.

Larry Stephens

Larry Stephens
Contract Administrator

LS/km

cc:

Apparel Division

FILE

April 25, 1984

Mr.

Dear ,

Enclosed are a few recent examples of Billing/Shipping errors. These were passed on to me through our Receiving Department. The appropriate adjustments have been made.

Apparently, information reflected on the Contents Label often times varies from the invoice (see attached highlighted documents). These discrepancies prompt Nike to physically inspect 100% of your shipments. This only slows down the receiving process.

cost time too

Any efforts to correct and/or clarify this situation are greatly appreciated. Please call me if I can provide additional information or assistance. I look forward to your response and help in solving these discrepancies.

Sincerely,

Dean Lambert

Dean Lambert
Production Scheduling

DL/lk
Attachments
cc:

Other examples of problems dealing with the big guys

NIKE

FILE

MEMORANDUM

1/31/85

Bob,

Another round of somewhat disturbing news concerning our fleece program with . has surfaced. Apparently on style #7905 Boys fleece pant (P.O. #27652) has neglected to sew up any size 'XL' - claiming that the spec's and B.O.M. 's they received from NIKE did not specify size 'XL' on them. — they did

This raises a couple of questions:
- How can our B.O.M 's go out minus important information?
- How can a Purchase Order that was cut in late September '84 for mid-December delivery that called for size 'XL' not raise any red flags from the . camp- especially during production of our order?
- Why are we just now finding out about this in late January through our own inquiry as to why no 'XL' had shipped ?

What is so frustrating about the whole program is that in prior checks on our production with . . . everything was "on-time", "complete" etc...

It concerns me that . does very little to inform our people in the field of these types of problems until after the fact. If we are serious about meeting our deliveries and having a profitable relationship with '. I think we have to be in there digging and monitoring our production constantly ...

Let me know your thoughts and concerns.

FILE

February 19, 1985

Mr. Bob Rhen &
Mr. Steve Smith
Nike, Inc.
Apparel Division
8605 S.W. Creekside Place
Beaverton, Or. 97005

Dear Bob & Steve:

Thanks for taking the time to meet with last week. Per our discussions I have defined the ground rules again here so that we all understand what is required to make the program run as effectively as possible.

1. Forecasts: Nike furnishes seasonal forecasts showing projected usage in dozens by style.

2. Lead Times: Provided #1, minimum production lead time is ten weeks. Additional lead time of two weeks is necessary for printing. In the past, Nike has provided 30 day lead time on goods to be printed. This works well although the additional two weeks is still necessary in most cases.

3. Minimum dyelots. 200 dozen per color per style is necessary for production. In times past we have allowed 100 dozen dyelots for special circumstances and an additional 5% price increase. I think that we would all agree that this has not worked well because of fall-out by size. I would recommend that we abstain from using this approach unless absolutely necessary.

These are the basic guidelines. The supply agreement covers most of the other aspects of the formal relationship. I think we can all benefit greatly if we realize the necessary constraints. If you should have any questions about these guidelines please let me know.

Very truly yours,

Tried to get this down, but the confusion – they would not cooperate

Summary

Price is undoubtedly a factor for going off-shore, and I don't think we can argue ~~that~~ point.

However other factors are of more importance such as fabric minimums, factory cooperation, flexibility in production, and so on. If all factors were equal we would do even more goods domestically. But they aren't so we need to go off-shore to get what we want. This is the primary reason nearly all fashion business has shifted off-shore. The big chain stores and mass merchants can run the volume necessary to manufacturer domestically, but even without considering price, we can't. Many ~~of our~~ programs just don't fit into domestic production systems.

Also, I still feel that the import licensing proposal is of equal or more importance to us. We will be hurt by quota roll-backs but I think we can sort through this problem in the long run.

There is no way we could survive an import licensing scheme. Delivery of our goods is crucial since styling changes so often, and delays would choke us.

[illegible]

MEMORANDUM

TO: Carl Davis

DATE: April 27, 1987

FROM: Matt Wolff

DEPT: Production

RE: Apparel Sourcing Update
Domestic vs Offshore

Pursuant to your request, I have reviewed sourcing problems that we have experienced since Dave Taylor prepared his memo in the Fall of 1985.

Many of the same reasons Taylor pointed out still prevent us from doing all of our production domestically.

Fabrication: Although there has been a lot of hype about U.S. fabric mills becoming more "competitive" with regard to fabric minimums, for the most part this hasn't happened. In the area of woven fabrics, depending on the mill and type of fabric, most minimums run about 5-6,000 yds per dye lot color. Offshore, the dye lot minimums run between 600-1,000 yds. For our basic woven bottoms usually the domestic minimums don't present a problem because programs are large and long running, but they make it impossible to do a fashion oriented type program where we may want to buy only 50-75/dz per color at a time. With your basic pant using 1.5 yds per pc, we would have to commit to 300/dz per color domestically, twice what we would have to commit to offshore.

Many domestic mills have been trying to address the minimum problem. [redacted] for example now offers 1,000 yds per dye lot minimums and we took advantage of that service and utilized their 100 percent cotton twill fabric in our Fall '87 program. They could not however maintain this price for more than one season, and we could not afford their increase for Spring '88, and thus are back with our old twill supplier and their 6,000 yd minimums.

My point here is that although many domestic mills, both woven and knit, are trying to address this minimum dye lot problem, any accommodations made that deviate from the norm usually come with a significant price increase, thus putting their product out of the price range we can accept.

In the area of knits, our biggest fabrication is still fleece which we purchase primarily from offshore. We have had some success bringing a small portion of this business back to the states with the [redacted] program, but the majority of fleece still must come from offshore. Although we are investigating domestic possibilities, we have yet to find a U.S. mill that can produce basic fleece to our styling and fabrication specifications.

Both domestically and offshore lead time for all but the most basic fabrications are running longer than normal. Domestically however, it always seems to be worse. Lead times for yarn dyed fabrics that we utilize in basic tops, for instance, can be running as long as 17 weeks domestically. Even when business is very good, as it is now, yarn dyed fabrics will seldom go beyond an 8-10 week lead time offshore. When lead times are nearly twice as long domestically, we are faced with committing to fabric much sooner than we want, thus increasing the risk of excess fabric or garment inventory. In addition should a particular yarn dye program become more popular than originally forecasted, our ability to react and "chase" that business would be impaired because of the long lead times. Time and again, our Asian contractors have always proved themselves capable of taking additional orders and delivering them on time. Domestically if we deviate from original forecast, mills have a much more difficult time reacting and in most instances refuse to accommodate any changes.

Styling: Warm-ups continue to be a large part of of our business, and there are still not many domestic manufacturers that can be competitive with Asia on anything but the most basic suit. Most of the major fleece manufacturers are geared to very basic, simple type styling that they can have very long production runs on. Most would not even consider doing the type of styling where we realize the majority of our sales. In the area of basic fleece, we are trying to get something started domestically but to date have not been successful. Even though for us it's "basic" styling for most domestic fleece manufacturers our "basic" styling requirements are too complex. In instances where they have tried to produce to our specifications, the prices are not just uncompetitive they are exorbitant.

On our other programs that require more make in the garment, such as placket shirts or tennis shorts and skirts, we have yet to find a manufacturer who can compete with Asia. On numerous occasions, I have had domestic contractors send me a basic placket shirt and offer a price and product which appears to be competitive. But when I have sent a Nike garment with Nike fabric and styling specifications, their initial prices often increase by 50-75%.

Delivery: Although we have delivery problems wherever we make goods, our major and most costly delivery problems occur domestically. Attached are four letters to four separate domestic manufacturers that detail problems we've had in the last year. All were very costly to Nike, but the delivery problems of two manufacturers cited in these letters, [redacted] and [redacted], were especially crippling. The letters detail the problems so I won't elaborate any further. These letters are representative of the problems we encounter repeatedly in dealing with domestic manufacturers.

Summary: Price is the obvious reason so many apparel companies manufacture offshore. Except for the most basic styled garments, domestic manufacturers cannot compete with Asia in terms of price.

It is however, the other factors that have really driven apparel companies like Nike offshore. Factors such as fabric minimums, lead times, delivery reliability, factory cooperation, flexibility in production etc., etc. It all boils down to service. In Asia, the apparel industry is service oriented, in the U.S. the industry is inflexible. Offshore manufacturers are willing to work with buyers to develop new fabrics and programs that are flexible with regards to buying patterns and minimum requirements which is so important to us so we can stay close to the market and lessen the inventory risk. Domestically, for the most part, this type of atmosphere just doesn't exist. We have a number of domestic manufacturers who have been loyal, consistently hard working partners. Even then however, their product usually consists of our most basic items, woven shorts, t-shirts, etc. Many of our programs just don't fit into domestic production systems and historically they have refused to make any changes.

Apparel Division

March 5, 1987

Dear

The current Spring '87 season has been a very difficult one between NIKE and [redacted] We are experiencing severe delivery problems from you that are unlike any we have had before. We know that there are many reasons for this, i.e. your move from [redacted], late fabric delivery, lack of proper equipment etc., etc..

When we factor these problems in, we still feel that deliveries have been delayed even further than they should have been for reasons unknown to us at this time. For instance, the fitness group fabrics generally were not received and cuttable until late November or the first of December - yet here we are at the end of February with very little shipping against this group. Also style 7C61 was not cuttable until early Nov. and you cut the first orders on Nov. 14th. We've only seen the 5,000 pcs for the [redacted] order shipped up to this point with very little else shipped. We have now lost around $100,000 in sales against this style due to cancellations because of no delivery.

When you add these problems to the problems of; being unable to get information regarding deliveries and order confirmations; regarding fabric receivables and shipments of finished goods; regarding an "unaccustomed to" lack of proper and timely information in most areas - it makes for a very long and very difficult season for all of us.

It is certainly not the type of relationship and performance that we've come to know from [redacted]. over the past few years.

Attached to this letter you will find a listing of the Purchase Orders and styles placed with you for the Spring '87 season. It will show you just how long it has taken to get orders shipped - a great majority of which aren't shipped even as of yet. Please look this listing over carefully and get a picture of just how difficult our situation really is.

In view of all these problems and our continuing inability to meet our customers demands, resulting in daily cancellations, we feel that we must set up some deadline regarding the completion of 1987 Spring orders. We feel that we must have all Spring orders shipped complete out of your warehouse by March 27th, 1987. Any orders that are shipped later than that date will only be accepted by NIKE at a reduced price. Our standard agreement with contractors places that price at 66% of cost. March 27th is reasonable since our last Spring shipment to customers is March 25.

We are very interested in getting over this bad season and continuing our relationship. If you feel that the above limitations are unreasonable either generally or specifically, we welcome a response from you outlining your disagreement and why. You must remember that we are already losing sales and money due to these late deliveries.

Best Regards,

Larry Stephens
Domestic Production

LS/dd

cc: [redacted]
Matt Wolff - NIKE
Steve Smith - NIKE
Dave Dickey - NIKE
Roger Neet - NIKE
Joel Hirschman - NIKE

Apparel Division

March 4, 1987

Dear

As we move into March, we are still struggling with quite a few delivery problems from [redacted] on our 1987 Spring line. In fact, we are quite disappointed with [redacted] performance overall. As I've said several times in the past, we were very excited to be able to develop a program with you having been aware for quite some time of [redacted] reputation for quality, delivery, and performance in the apparel market place. For whatever reasons, the actual experience has been far below expectations.

Enclosed with this letter is a computerized printout of the history of the purchase orders we have placed with you dating back to last July. In some instances, some styles shipped within a reasonable period of time. On the other hand, the delivery of the little boys and kids program has been disastrous. This was pretty much a one shot program issued in September with a requested delivery date of December 1st. You generally confirmed a mid January to late January ship date, and after some meetings, you agreed to have the goods shipped by 1-15 to 1-23, 87. As of the date of this letter, there are still many of these items unshipped.

There were also more quality problems than we anticipated with you folks. There was the disappointment with the quality of the printed goods as well as the weight of that fabric. Some stripe matching problems and two or three screen printing problems.

Another area of frustration has been in the area of obtaining timely and accurate information regarding the status of our orders at a given time in your operation. It seemed, for the most part, that the information was very slow in coming and not always accurate. [redacted] I even realize that you have been frustrated yourself in your efforts to get the information that we requested. I can only conclude as an outsider that there must be some problems internally there with the flow of information. We are facing mounting cancellations daily from customers who expected their goods in January and February, that, we felt would be no real problem back in November. Our last shot of Spring '87 shipments are due to go out to our customers by March 25th and we're talking about orders that were originally written for March delivery. We are faced with shipping a lot of January and February orders during the month of March that we can only hope will stick.

In an effort to be reasonable with you and at the same time minimize our losses, we feel that we must ask you to complete all of our Spring orders out of your warehouse no later than March 27th, 1987. Any orders shipped after that date will only be accepted by NIKE at a reduced price. That price as covered in our Supply Agreement would be at 66% of FOB. If you feel that this an unfair deadline, we welcome a response from you that would point out anything that you feel would be specifically unreasonable.

Please feel free to call me if you have any other questions or problems you feel that you need to discuss.

Sincerely,

Larry Stephens
Domestic Production Manager

LS/dd

cc: [redacted]
Roger Neet
Matt Wolff
Dave Dickey
Steve Smith

Senator **Packwood**. The last question. You were suggesting in essence, that there is no domestic athletic shoe manufacturing business in the United States. Whatever there is is all overseas. And so if you pass this kind of a bill, you are not protecting anything that exist in this country.

Mr. **Davis**. That is correct.

The 1986 statistics for nonrubber, those shoes that are covered by this bill, athletic footwear, the import penetration was 99 percent. Even the other 1 percent is made up by factories that import by far the bulk of their shoes.

Senator **Packwood**. Thank you.

Mr. Chairman, I would like to insert in the record also a statement from Avia, another Oregon sport shoe manufacturer, if I might.

The **Chairman**. Without objection, it will be done.

Senator **Packwood**. I have no more questions. Thank you.

The **Chairman**. All right.

Next in the order of appearance we have Senator Riegle.

Senator **Riegle**. No questions, Mr. Chairman.

The **Chairman**. Senator Chafee.

Senator **Chafee**. Mr. Chairman, I have no questions, but I have to go. What are your plans?

The **Chairman**. I am hoping to vote this bill out as soon as we finish this questioning.

Senator **Chafee**. Well I have no questions.

The **Chairman**. And I need very much to have a quorum if we can. Senator Moynihan.

Senator **Moynihan**. I have no questions, Mr. Chairman.

The **Chairman**. Senator Daschle?

Senator **Daschle**. No questions, Mr. Chairman.

The **Chairman**. Senator Bradley.

Senator **Bradley**. No questions, Mr. Chairman.

The **Chairman**. Senator Mitchell.

Senator **Mitchell**. Mr. Chairman, I have several questions but I will submit them in writing in the interest of time. I would like to make one specific request of Miss Brown that she provide the committee with a detailed written analysis of the methodology and the assumptions used to arrive at the allegation of $223,000 cost to consumers per job. That figure has doubled almost every time we have had this argument in the committee. When I started on this it was $32,000 and it went to $68,000 and then it went to $150,000. Now it is at $223,000. Those numbers take on a life of their own. I would like to get in writing a specific detailed statement of the methodology and assumptions that went into arriving at that figure.

Thank you, Mr. Chairman.

Mrs. **Brown**. We will submit it.

[The information follows:]

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March 1987

ANALYSIS OF THE IMPACT OF THE TEXTILE AND APPAREL TRADE ACT OF 1987

By Laura Megna Baughman

I. INTRODUCTION

The Textile and Apparel Trade Act of 1987 (H.R. 1154 and S. 549) would tighten existing quotas on textile and apparel imports and expand the number of countries subject to quota to cover all suppliers to the U.S. market. In addition, the legislation would freeze nonrubber footwear imports at 1986 volumes.

Imports in each textile and apparel category would be allowed to grow by 1 percent a year, while nonrubber footwear imports would not be permitted to increase at all. Contrary to the claims of sponsors of the textile bill that it is "moderate" because it permits growth, passage of the legislation would result in reductions in import volumes for two reasons. First, the legislation expands textile and apparel quotas to cover all suppliers, including those not presently subject to control (particularly, the European Community, Canada, and smaller developing countries). The cutback in supply to a 1 percent growth limit for all small suppliers in all categories is sufficient to reduce the overall volume of imports permitted by the legislation, relative to the present quota system. Second, while overall growth under existing bilateral agreements with the major supplier countries is now limited to 1 percent or less, growth provisions for imports from major suppliers for certain categories are greater than 1 percent, as are overall increases in categories from second-tier suppliers, generally at 6 percent or 7 percent growth. A restriction of each category's growth to 1 percent means an import volume reduction in most categories and overall.

This analysis focuses on quantifying the impact on consumers of the quotas envisioned in the Textile and Apparel Act of 1987. The textile and apparel estimates are confined by limitations on data availability to cotton, wool and man-made fiber textile and apparel products. Because the legislation would also apply to silk, ramie, linen and other fibers and their products, the consumer cost estimates presented here understate the true total costs of the legislation.

Section II describes the effect the Textile and Apparel Trade Act of 1987 would have on textile, apparel and footwear import levels. Section III evaluates the impact of the legislation on American consumers. Section IV suggests other costs to the U.S. economy.

II. IMPACT ON FOOTWEAR, TEXTILE AND APPAREL TRADE

The legislation would result in significant changes in footwear, and textile and apparel trade.

Footwear. The legislation would require a reduction in future nonrubber footwear imports by freezing them at 1986 volumes. Import volumes would be held at 1986 levels on a category-by-category basis. In addition, each category's quota would be subdivided into imports under and over $2.50 FOB, with the import volumes according to this value division becoming the fixed quota amounts. Thus, the fashion trends reflected in 1986 footwear imports will determine the permissible volume of imports for the indeterminate future (the legislation has no provision for the expiration of the quotas), regardless of future consumer demand, fluctuations in exchange rates, and inflation.

In addition, most low-priced footwear that is currently imported cannot be produced by U.S. manufacturers at an equally competitive price. Consumers will be forced to purchase the higher-priced domestic substitute, or to forego purchasing altogether. Low-income consumers will be the chief victims.

It is possible to estimate the potential extent of the cutback in imports by hypothesizing that in the absence of any quota, nonrubber footwear imports in the aggregate would increase at the same rate they have grown over the 1984-86 period. Table 1 shows the result.

Table 1

Estimated Cutback in Footwear Imports
(000 pair)

	Import Volume	Quota Level	Cutback
1984^{a}	725,892	N.A.	N.A.
1985^{a}	842,700	N.A.	N.A.
1986^{a}	940,771	N.A.	N.A.
1987^{e}	1,071,206	940,771	-130,435

a = Actual; e = Estimated; N.A. = Not Applicable

Source: 1984-86, U.S. Department of Commerce official statistics.

Textiles and Apparel. The legislation would also reduce U.S. textile and apparel imports. Again, it is possible to estimate the potential impact on the volume of trade by referring to 1984-86 import growth, shown in Table 2.

Table 2

Estimated Reduction in Textile and Apparel Imports
(millions of square yard equivalents)

	Import Volume	Quota Level	Reduction
1984^{a}	10,641	N.A.	N.A.
1985^{a}	11,422	N.A.	N.A.
1986^{a}	13,365	N.A.	N.A.
1987^{e}	14,993	13,499	-1,494

a = Actual; e = Estimated; N.A. = Not Applicable

Source: 1984-86, U.S. Department of Commerce, Major Shippers Report, December 1986.

On a product-by-product basis, the legislation's impact on trade levels would be very uneven. Certain categories of textile and apparel products would be hit much harder than others. As with footwear, tighter quotas would reduce the availability of certain inexpensive apparel products which domestic producers cannot manufacture at the lower price. In addition, certain fabrics, such as silk and light-weight polyester filament fabric, can only be manufactured abroad. Tightening these quotas does not benefit U.S. producers; it only hurts U.S. consumers (in this case, U.S. apparel manufacturers).

III. IMPACT ON CONSUMERS

The costs at retail that would be imposed on American consumers as a result of the legislation have been estimated for both textiles/apparel and footwear. The model and data upon which the costs are based are described in the Appendix. The results are summarized in Table 3.

The legislation would impose an additional annual burden on consumers of over $10 billion at retail, over and above the costs they already bear from existing tariff and MFA protection. (These have been estimated for textiles and apparel at $27 billion, wholesale.[1] The comparable retail estimate is $54 billion.)

Table 3

Summary of the Annual Costs to Consumers of the Textile and Apparel Trade Act of 1987

	Textiles and Apparel	Footwear	Total
Consumer Cost (millions)	$8,134.2	$2,285.4	$10,419.6
Domestic market	4,205.3	718.9	4,924.2
Import market	3,928.9	1,566.5	5,495.4
Percent Change In:			
Import prices	+6.4%	+9.3%	
Domestic prices	+2.0	+10.0	
Domestic output	+2.0	+19.8	
Import volume	-10.0	-12.2	
Consumption	-1.3	-6.4	
Employment			
Production jobs protected	+31,100	+15,600	+46,700
Total cost per job protected	$262,000	$146,500	$223,118
Retail jobs lost	-30,345	-22,102	-52,447
10-Year Cost (millions)	$ 68,614.6	$19,278.1	$87,892.7

Source: International Business & Economic Research Corp.

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[1] Gary Clyde Hufbauer, Diane T. Berliner and Kimberly Ann Ann Elliott, Trade Protection in the United States: 31 Case Studies (Institute for International Economics, 1986).

The value of the increased domestic manufacturing production and employment would be outweighed two to one by the costs consumers would be forced to bear due to increases in prices and a smaller selection of goods. In effect, the legislation would tax consumers an estimated $223,000 for each of the less than 47,000 jobs[2] protected in 1987.

Because it will reduce domestic consumption of textiles, apparel, and footwear, the legislation will result in the loss of over 52,000 retail jobs. Overall, the legislation will force a net decline in employment of over 5,700 jobs.

Finally, the estimated consumer costs of the legislation over the 10 years it would run before its first official review total $88 billion.

IV. OTHER COSTS

The estimated consumer costs represent static inefficiency costs that would arise from the implementation of the proposed legislation (i.e., the movement of resources into the domestic production of textiles, apparel and footwear--resources that would be more efficiently used elsewhere in the economy). While these costs are significant, especially to low-income consumers, the legislation would also give rise to other costs whose value cannot be estimated in as straight-forward a manner. These costs include a decline in the growth of the economy as a whole, a reduction in the competitiveness of U.S. export industries, a large reduction in the international competitiveness of the textile/apparel and footwear industries, the virtual certainty of foreign retaliation and its repercussions on U.S. exports and the

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2/ These are direct employment estimates only. Indirect or secondary effects were not estimated. An increase in domestic manufacturing employment will generate additional employment in upstream and supplier industries. Similarly, changes in import levels will reduce employment in import-related sectors. In addition, retaliation against U.S. exports arising from the legislation will reduce employment in those export industries and in the industries which supply them.

employment which depends on them, and the undermining effect increasing protection in the United States would have on the ability of U.S. negotiators at the Uruguay Round to convince our trading partners to reduce trade barriers.

Growth. In addition to the costs discussed in Section III above, the Textile and Apparel Trade Act of 1987 would reduce the rate of growth of the economy as a whole. Protection distorts relative prices, causing scarce investment capital to be wasted by being diverted into lower-productivity projects. The diversion of resources away from more productive industries and into textiles/apparel and footwear reduces growth in the former, and drags down overall economic growth.

Export Industries. The diversion of capital and labor away from more competitive export-oriented industries and towards less efficient protected industries reduces the competitiveness of U.S. export industries, and could ultimately increase the U.S. trade deficit.

Reduced Competitiveness of Protected Industries. Protection reduces the degree of external competitive pressure on the domestic textile/apparel and footwear industries. Import competition provides a strong impetus for industries to undertake necessary adjustment. Protection removes the pressure on the U.S. textile/apparel and footwear industries to continue their adjustment into internationally competitive industries.

Retaliation. It is certain that several foreign suppliers will retaliate against U.S. exports if the Textile and Apparel Trade Act becomes law.[3]/ Such retaliation (on upwards of $29 billion of U.S. exports) would have serious repercussions on not only the volume of U.S. exports, but the employment that depends on them. Over 700,000 export jobs could potentially be affected.[4]

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[3]/ European Community Trade Commission Willy de Clercq has already informed the USTR of the EC's intention "to introduce retaliatory measures against American goods" if the legislation is passed ("Trade Policy: European Official Sends Letter of Concern on Textile Bill to USTR, Threatens Retaliation if Approved," *Executives* (Washington, DC: Bureau of National Affairs, Inc.), DER No. 47, March 12, 1987, p. L-8.). Roy Denman, Head of the Delegation of the European Communities, reaffirmed the EC's intention to retaliate in a letter to House Ways and Means Committee Chairman Rostenkowski on March 16, 1987.

Trade Liberalization. The adoption of increased protection by the United States would undermine the efforts of U.S. negotiators to achieve a reduction in import barriers imposed by our trading partners. Flagrant violation by the United States of its obligations under both the GATT and Multifiber Arrangement might launch large-scale abandonment by many countries of international agreements designed to promote trade liberalization.

4/ It has been estimated that it takes 25,800 jobs to produce $1 billion of exports in 1984 (Lester A. Davis, Contribution of Exports to U.S. Employment, International Trade Administration, March 1986). Exports of $29 billion would therefore require 748,200 employees.

Appendix

THE MODEL AND EMPIRICAL RESULTS

This appendix describes the theoretical model used to calculate the impact on consumers of the Textile and Apparel Trade Act of 1987 on the textile/apparel and footwear imports it would restrict. It provides estimates of the legislation's annual cost to consumers and the impact on manufacturing employment. In addition, estimates are provided of the costs of the bill over the first 10 years of its term.

Section I outlines the model and presents the empirical results of the costs to consumers. Section II discusses the impact of the legislation on manufacturing employment. Section III focuses on the longer-run impact of the bill, particularly over the first 10 years of its operation.

I. Costs to Consumers

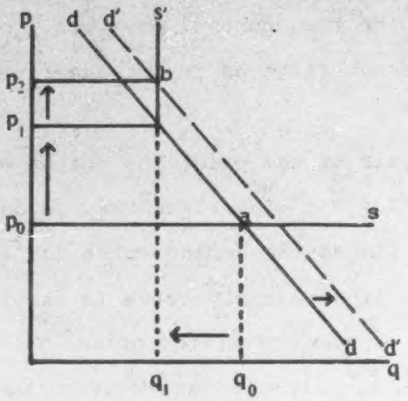
A partial equilibrium model was used to estimate the total cost to consumers of additional quotas on textiles, apparel, and footwear. It was assumed that imported textiles and apparel, as well as footwear, are each imperfect substitutes for domestic textiles and apparel, and footwear, and the import supply curves of each product are infinitely elastic (i.e., horizontal).[1/] An infinitely elastic supply curve means that no individual import supplier can affect the price the consumer pays for imports, particularly over the relevant range of import quantities under consideration.

The traditional analysis of the price and output effects of a quota are shown in Figure 1. The diagram at the top depicts the U.S. market for imports, with dd the demand curve for imports and $p_o{}^s$ the supply curve. The import supply curve is assumed to be infinitely elastic (flat) at the prevailing price[2/], signifying that no foreign supplier is large enough to singly affect the prevailing market price. Equilibrium is at point a, where q_o is the volume of imports supplied in the U.S. market at price p_o in the base year.

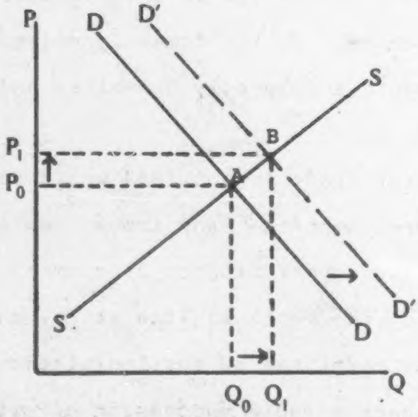
The diagram at the bottom of Figure 1 represents the U.S. market for the domestic substitute. DD is the domestic demand curve, and SS the supply curve. At the domestic price of P_o, U.S. producers are willing to supply only Q_o units, and equilibrium is at point A.

The Textile and Apparel Trade Act of 1987 would further restrict textile and apparel imports[3/] and impose new quotas on footwear imports. In the import product diagram in Figure 1, the quota is represented by the vertical line at q_1, the new, reduced, volume of imports permitted by the legislation in the first year. The quota causes a rapid succession of price and

FIGURE 1



market for the imported good



MARKET FOR THE DOMESTIC GOOD

output changes. As imports are reduced, import prices initially rise to p_1. The decrease in imports available and their higher price causes U.S. consumers to increase purchases of the domestic good, shifting the demand curve of the domestic good to D'D'. The extent of the shift from DD to D'D' depends on the degree of substitutability between the two goods. If the products are perfect substitutes for each other, the domestic increase would be equal to the full amount of the import decline. But here the domestic product is not perfectly substitutable for the import, so the shift will be short of the full volume of the import cutback. The price of the domestic good rises from P_0 to P_1. The higher price in the domestic market in turn causes some demand to switch back to imports, shifting the import demand curve right to d'd' and further increasing import prices to p_2. The final domestic equilibrium position occurs at point B, and the final import equilibrium at b.

The cost to the economy of a quota results from the reduction the quota causes in consumer surplus. Consumer surplus is the excess of what consumers would have been willing to pay for a product over what they actually paid (the market price). When the price of a product increases from a quota, consumer surplus is reduced. The reduction in consumer surplus in effect is a loss in real income to consumers because the price of a product has increased.

In a differentiated product model, the reduction in consumer surplus has two elements. One is the loss that occurs in the market for the imported good and is shown in the import diagram as area abp_2p_o. The second loss occurs in the domestic market, in the form of producer surplus (i.e., the gain producers get because they can now charge a higher price), and is shown in the domestic diagram by area ABP_oP_1. The total cost to consumers of the quotas on imports is the sum of the import and domestic market reductions in consumer surplus. It is the excess of what consumers must pay for imports and the domestic good at the quota-induced increased price, over what they would have paid in the absence of the quota.

The equation used to calculate the consumer cost in the import market, area abp_op_2, is:[4]

(1) $$CC_f = V_f \left[(q_1/q_o)^{[-(e_d + e_s)/D_q]} - 1\right]\left[(q_1/q_o) + 1\right]/2$$

where $D_q = n(e_s + e_d) - n_{df}\, n_{fd}$ and

V_f = the total value of imported goods

q_1 = the volume of imports permitted under the quota

q_o = the volume of imports prior to the quota

e_d = the domestic demand elasticity

e_s = the domestic supply elasticity

n = the import demand elasticity

n_{df} = the elasticity of demand for the domestic product with respect to the price of the imported product

n_{fd} = the elasticity of demand for the imported product with respect to the price of the domestic product.

The equation for the consumer cost in the market for the domestic good, area ABP_oP_1, is:

(2) $$CC_D = V_D \left[(q_1/q_o)^{(-n_{df}/D_q)} - 1\right]\left[(q_1/q_o)^{(-e_s\, n_{df}/D_q)} + 1\right]/2$$

where

V_D = the value of domestic production.

The total cost to the consumer is equal to the sum of the cost in the import market, equation (1), and the cost in the domestic market, equation (2), or

(3) $$TCC = CC_f + CC_D$$

These costs are summarized for the textiles/apparel[5] and footwear quotas envisioned in the proposed legislation in Table A[6]. The data and elasticities used to derive these estimates are shown in Table B.

II. Employment Impacts

A. Impact on Manufacturing Employment

The estimated increase in domestic production that would arise from new or more restrictive quotas and an estimate of the volume produced per employee in 1986 were used to compute the number of jobs that would be protected by the Textile and Apparel Act of 1987 in its first year. The assumption was made that employment would expand at the same rate as output. It is more likely, however, that employment would increase at a lower rate than output because domestic manufacturers would opt to increase hours before expanding their labor force. In this case, the employment estimates below may overstate the benefits of the legislation.

Textiles and Apparel. According to the Bureau of Labor Statistics,[7] 1986 textile and apparel production employment totaled 1,555 thousand. The volume of textile and apparel production in 1986 was estimated at 10,278 million pounds (see Table B, footnote 4 for the derivation of this estimate). Thus, textile and apparel output per employee was approximately 6,610 pounds.

It is estimated that the increase in 1987 domestic output that would result from the legislation would be 2 percent, or 205.6 million pounds (see Table A). It would require an estimated 31,100 employees to produce this increase (205,600,000/6,610). The value of the benefit to workers of the protection is computed by multiplying the number of jobs protected by: the average hourly wage for textile and apparel workers ($6.26), the average hours worked per week (38.5) and the average number of weeks of textile and apparel unemployment per year (15.5).[8] The employment benefit therefore is estimated to be:

(31,100) ($6.26) (38.5) (15.5) = $116.2 million.

The cost to consumers of each of these protected jobs would be:

$8,134.2 million/31,100 jobs = $262,000 per job.

Thus, for every $1 textile and apparel workers receive from the legislation, American consumers must pay $70.

Footwear. The footwear employment estimates were similarly derived. The BLS estimates 1986 footwear production employees totaled 78,300.[9/] Output in 1986 was 233,786 thousand pairs.[10/] Output per employee in 1986 was thus 2,986 pair.

The footwear quotas contained in the legislation are estimated to increase 1987 domestic shipments by 19.8 percent, or 46.6 million pair (see Table A). This increase in shipments would protect an estimated 15,600 jobs, at a cost to the consumer of:

$2,285.4 million/15,600 jobs = $146,500 each.

The value of the benefit of the legislation to these workers is computed by multiplying the number of jobs protected by the average 1986 nonrubber footwear hourly wage ($5.61), the nonrubber footwear average hours worked per week (36.1), and the average number of weeks of leather sector unemployment per year (17.4):[11/]

(15,600) ($5.61) (36.1) (17.4) = $55.0 million.

Therefore, for every $1 footwear workers receive from the legislation, American consumers pay $42.

B. Impact on Retail Employment

Additional quotas on textile and apparel imports and new quotas on footwear imports would result in major job losses in the retail sector. This is because reduced imports would not be fully replaced by increased sales of domestic substitutes. Faced with higher prices of both imported and domestic textiles/apparel and footwear, consumers would purchase smaller quantities from both sources.

To calculate the impact of the quotas on retail employment, we first determine the net decline in estimated 1987 retail sales (consumption). This will be the sum of the decline in 1987 imports and the increase in 1987 domestic production resulting from the quotas. Table A shows the consumption decline to be 1.3 percent for textiles and apparel and 6.4 percent for footwear, or 181.4 million pounds of textiles/apparel and 83.5 million pairs of footwear. Using 1986 retail employment[12] and consumption[13] as a base, the ratio of retail sales volume (consumption) to retail employment can be calculated:

	1986 Consumption (millions)	1986 Retail Employment (thousands)	Retail Sales/ Employee
Textiles/apparel	13,067.4 lbs.	2,185.9	5978
Footwear	1,162.2 prs.	307.6	3778

A net decline in textile/apparel consumption of 181.4 million pounds results in retail job losses of 30,345 (181,400,000/5978). A net decline in footwear consumption of 83.5 million pair results in additional retail job losses of 22,102. Thus, the number of jobs lost by retail workers as a result of the restrictions on trade in the Textile and Apparel Trade Act exceeds the number of manufacturing jobs protected. Overall, 52,477 retail jobs would be lost in order to protect 46,700 manufacturing jobs for a net loss of 5,747 jobs. The dollar cost of this unemployment to retail workers clearly exceeds the dollar value of the benefit to manufacturing workers.

III. Longer-Term Impact on Consumers

The longer-term impact on consumers of the legislation was measured by computing the present discounted value of the total and net consumer costs for the first year, over the initial 10 years of its operation. The period of 10 years was chosen because the bill mandates that consumers pay for the quotas for 10 years before the Secretary of Commerce is required to review the operation of the legislation and report to Congress. Presumably, no official evaluation of the costs relative to the benefits would occur prior to that review.

The value of the costs over the next 10 years were derived from the following formula:

$$PVTCC = \sum_{n=1} TCC_i \; (1+d)^{-i}$$

Table A
Annual Consumer Cost Estimates

	Textiles & Apparel	Footwear
Total Cost (millions)	$8,134.2	$2,285.4
Domestic market	4,205.3	718.9
Import market	3,928.9	1,566.5
Percent Change in:		
Import price	+ 6.4%	+ 9.3%
Domestic price	+ 2.0	+ 10.0
Domestic output	+ 2.0	+ 19.8
Import volume	- 10.0	- 12.2
Consumption	- 1.3	- 6.4

Source: International Business & Economic Research Corp.

Table B

Data Used to Estimate Consumer Costs

Estimated 1987 data (millions)	Textiles & Apparel	Footwear
Unrestricted import quantity (q_o)	3,843.3 pounds	1,071.0 pairs
Unrestricted value of imports (V_f)	$64,582.0	$17,889.6
Quota quantity (q_1)	3,460.0 pounds	940.8 pairs
Initial quantity of domestic production	10,278.0 pounds	235.5 pairs
Initial value of domestic production (V_D)	$211,954.0	$6,546.4
Elasticities		
Domestic demand elasticity (e_d)	-0.2	-0.5
Domestic supply elasticity (e_s)	1.0	1.9
Import demand elasticity (n)	-1.8	-1.5
Domestic demand cross elasticity (n_{df})	0.4	-2.1
Import demand cross elasticity (n_{fd})	0.3	-0.1

Textile and Apparel Data Sources:

(1) 1986 import volumes were calculated from 1985 and Jan.-July 1986 monthly data from USDA, ERS, Cotton and Wool: Situation and Outlook (Nov. 1986, CWS 47). 1987 imports were estimated by applying to the 1986 estimate the average annual growth rate for 1984-86 of imports in square yard equivalents published by the Department of Commerce, Major Shippers Report, Dec. 1986.

(2) Import values for 1986 (customs value of imports for consumption) from the Department of Commerce, 1987 U.S. Industrial Outlook were increased by the trade weighted tariff rate in 1986 (18.2%) and the ratio of cif charges to customs value in 1986 (7.11%), and then doubled to get an estimate at retail. The 1987 value was estimated by increasing this 1986 value by the average annual rate of growth for 1984-86 in the value of textile and apparel imports from all sources.

(3) The quota quantity in 1987 is equal to the volume of 1986 imports plus 1 percent.

(4) The initial quantity of domestic production was derived by increasing the volume of shipments for 1984 found in U.S. Department of Commerce, International Trade Administration, U.S. Production, Imports and Import/Production Ratios for Cotton, Wool and Man-made Fiber Textiles and Apparel (March 1986) by the change in the average industrial production index for textiles and apparel for 1985 (1.4%). The 1985 volume was decreased by 0.1% (even though the change in the average textile and apparel industrial production index for Jan.-Nov. 1986 was +0.5%) to get a conservative estimate of 1986 production (10,278 million pounds). Production in 1987 was assumed to stay at the estimated 1986 level.

(5) The initial value of domestic production for 1987 is the 1986 value published in the 1987 Current Industrial Outlook, doubled to reflect the value at retail, and increased by the average change in the producer price index for 1986 for textiles and apparel.

(6) All elasticity values except the cross elasticities are from Gary Clyde Hufbauer, Diane T. Berliner and Kimberly Ann Elliott, Trade Protection in the United States: 31 Case Studies (Institute for International Economics, 1986). The cross elasticities were derived according to the-methodology provided in Rousslang and Soumela, p. 24.

Footwear Data Sources:

(1) The average annual growths in the volume and value of footwear imports for 1984-86 were applied to the 1986 import volume and value data from official statistics of the U.S Department of Commerce to estimate 1987 data. The value data are an estimate at retail based on an assumed markup of 100 percent. The 1986 customs value of imports was increased by the trade-weighted import duty (10.01%) and the ratio of cif charges to customs value for 1985 (15.7%), and doubled to bring it to retail.

(2) The quota volume is the quantity of 1986 nonrubber imports.

(3) The volume of domestic shipments was estimated by decreasing the 1986 volume of 257,782, from the U.S. Department of Commerce, Bureau of the Census, Current Industrial Report: Footwear, M31A(86)-12, Dec. 1986, by the average annual decline in footwear production from 1984-86 (-8.6%).

(4) The *value of domestic shipments* for 1987 was calculated by increasing the 1986 value published by the Department of Commerce, *Current Industrial Report* by the average growth in the value of shipments from 1984-86, also derived from the CIR, and then doubled to bring it to retail.

where "i" is time (and runs from 1 to 10) and "d" is the discount factor, equal to the social rate of capitalization minus the estimated real rate of growth of the economy as a whole and the consumption of items directly competitive with imports.[14] Following Morkre and Tarr,[15] the social rate of capitalization was set at 7 percent and growth at 3 percent. The discount factor, "d", becomes 4 percent.

The present values of the costs to consumers are estimated for 10 years and shown in Table C. The employment benefit is experienced in the first year of the quota only. It is short-lived because it lasts only as long as the average period of unemployment. Therefore, after 1987 the employment benefit is zero.

As large as they are, the estimates of the long-run costs of the legislation are understated. Present value analysis assumes that the same percent reduction in projected 1987 imports applies to each year after 1987. However, the percent reduction would actually *grow* each year, measured from the "free trade" baseline. For example, in the first year footwear imports would decline by 12 percent over 1987 imports; in the second year, imports would be held to 1986 levels, but projected 1987 levels would have grown, so the percent reduction would be larger. This means the consumer costs would also be larger in each successive year. It similarly means that the estimated price increases shown in Table A would also grow with time.

Table C

Longer-Term Costs of the Textile and Apparel Trade Act of 1987
(millions of 1987 dollars)

Textiles and Apparel

	Total Cost	Employment Benefit	Net Cost
1987	$ 8,134.2	$116.2	$8,018.0
1988	7,821.3	0	7,821.3
1989	7,520.5	0	7,520.5
1990	7,231.3	0	7,231.3
1991	6,953.1	0	6,953.1
1992	6,685.7	0	6,685.7
1993	6,428.6	0	6,428.6
1994	6,181.3	0	6,181.3
1995	5,943.6	0	5,943.6
1996	5,715.0	0	5,715.0
10-Year Total	$68,614.6	$116.2	$68,498.4

Nonrubber Footwear

	Total Cost	Employment Benefit	Net Cost
1987	$ 2,285.4	$55.0	$2,230.4
1988	2,197.5	0	2,197.5
1989	2,113.0	0	2,113.0
1990	2,031.7	0	2,031.7
1991	1,953.6	0	1,953.6
1992	1,878.4	0	1,878.4
1993	1,806.2	0	1,806.2
1994	1,736.7	0	1,736.7
1995	1,669.9	0	1,669.9
1996	1,605.7	0	1,605.7
10-Year Total	$19,278.1	$55.0	$19,223.1

FOOTNOTES

[1] The literature on estimates of the costs to consumers of protection of textiles, apparel and footwear is extensive. Most of the authors of these studies postulated differentiated product models with flat import supply curves. See, for example: Morris E. Morkre and David G. Tarr, Effects of Restrictions on United States Imports: Five Case Studies and Theory, Federal Trade Commission, Bureau of Economics, June 1980; Randolph C. Martin and Joseph Pelzman, "The Regional Welfare Effects of Tariff Reductions on Textile Products," Journal of Regional Science, Vol. 23, No. 3, 1983, pp. 323-336; Morris E. Morkre, Import Quotas on Textiles: The Welfare Effects of United States Restrictions on Hong Kong, Federal Trade Commission, Bureau of Economics, August 1984; Joseph Pelzman and Charles E. Bradberry, "The Welfare Effects of Reduced U.S. Tariff Restrictions on Imported Textile Products," Applied Economics, Vol. 12, 1980, pp. 455-465; Joseph Pelzman and Randolph

C. Martin, "Direct Employment Effects of Increased Imports: A Case Study of the Textile Industry," Southern Economic Journal, Vol. 48, 1981, pp. 412-426; Michael Szenberg, John W. Lombardi and Eric Y. Lee, Welfare Effects of Trade Restrictions: A Case Study of the U.S. Footwear Industry (Academic Press, N.Y.: 1977); and Gary Clyde Hufbauer, Diane T. Berliner and Kimberly Ann Elliott, Trade Protection in the United States: 31 Case Studies (Institute for International Economics, 1986).

[2/] For textiles and apparel, the prevailing price is not the world price due to already existing quotas and tariffs in United States. It therefore is the world price plus tariff plus the quota-induced price increase of the MFA.

[3/] Proponents of the legislation argue that the textile and apparel provisions permit imports to grow 1 percent a year and therefore the bill does not roll back imports. However, because textile and apparel imports from the European Community, Canada, and smaller developing countries have been increasing at a rate in excess of 1 percent, in reality the provisions of the legislation would constitute a reduction in future years of the overall rate of growth of imports.

[4/] See Donald J. Rousslang and John W. Soumela, "Calculating the Consumer and Net Welfare Costs of Import Relief," International Trade Commission Staff Research Study #15, Office of Economics, July 1985.

[5/] The textile and apparel cost estimates were calculated by assuming that the interaction between textiles and apparel cancelled out. Increased quotas on apparel imports increase demand for domestic apparel, which in turn increases demand for domestic textiles. However, increased quotas on textile imports reduces domestic production of apparel. It was assumed that these interrelated apparel production effects cancelled each other out, so that the textile and apparel industries could be modeled as one industry.

[6/] The estimate of the price increase of the imported product may be understated. The assumption was made that increased prices to textile/apparel and footwear importers (wholesalers, retailers, and even U.S. producers) would result in an equivalent increase in the price to consumers. This assumes that a given increase in the dollar amount of an imported product would result in an equivalent increased dollar amount in the retail price, which means that retailers' gross margins would decline. If retailers are not willing to absorb the decline in their gross margins, the import price increases would be higher than those shown in Table A.

[7/] U.S. Department of Labor, Bureau of Labor Statistics, Employment and Earnings, January 1987 and December 1986, and unpublished BLS data.

[8/] Ibid, weighted by number of workers. The period of unemployment is the correct period over which to calculate the benefit to labor. The quota benefits are only those wages that would have been lost during an average period of unemployment, not during the full year.

[9/] Ibid.

[10] U.S. Department of Commerce, Bureau of the Census, Current Industrial Report: Footwear, M31A(86)-12, December 1987.

[11] Ibid. The average number of weeks of unemployment of nonrubber footwear workers was unavailable; the estimate for the leather sector was used instead.

[12] 1986 retail employment relating to textiles/apparel and footwear was calculated as follows:

Textiles/apparel: Monthly retail employment in apparel and accessory stores (SIC 56) excluding shoe stores, from Bureau of the Census, Employment and Earnings, various issues, was summed and averaged for the year and added to the employment in department stores (SIC 531), same source, related to textiles/apparel. The latter was approximated by multiplying total department store employment by the share of 1985 retail sales arising from all apparel items, carpets, linens, and other textile articles (Jay Scher, Department and Specialty Store Merchandising and Operating Results, Financial Executives Division, National Retail Merchants Assn., 1986).

Footwear: Monthly retail employment in shoe stores (SIC 566) from Bureau of Census, Employment and Earnings, various issues, was summed and averaged for 1986 and added to the employment in department stores (SIC 531), same source, related to footwear. The latter was approximated by multiplying total department store employment by the share of 1985 retail sales arising from shoe sales (Jay Scher, see above).

[13] 1986 production plus imports less exports, using data from sources described in Table B.

[14] See Stephen P. Magee, "The Welfare Effects of Restrictions on U.S Trade," Brookings Papers on Economic Activity, Vol. 3, 1972, pp. 684-686.

[15] Morris E. Morkre and David G. Tarr, Effects of Restrictions on United States Imports: Five Case Studies and Theory, Federal Trade Commission, Bureau of Economics, June 1980.

The **Chairman**. Are there further questions?

[No response.]

The **Chairman**. Thank you very much for your participation and your contribution.

[Whereupon, at 12:40 p.m., the hearing was concluded.]

[By direction of the chairman the following communications were made a part of the hearing record:]

Testimony of Senator Terry Sanford
Senate Finance Committee
July 30, 1987

Mr. Chairman and members of the committee, I appreciate the prompt attention you are giving this important legislation. The textile bill embodies many of the principles that were thoroughly debated and overwhelmingly endorsed during debate on the omnibus trade bill.

First, it keeps our markets open. The textile bill not only protects the current level of imports, it actually permits imports to grow. What it does not do is allow an illegal flood of imports to devastate the domestic textile and apparel industry.

Second, it calls for the enforcement of existing trade agreements. The Multi Fiber Arrangement governs worldwide textile and apparel trade. Our trading partners have signed it, but we are not enforcing it. The textile bill will change that.

Third, while calling on the president to take tough action, it gives him flexibility. Through a system of global quotas, the administration can adjust the quotas for individual countries, as economic or political condititions change. The president also has the authority to reduce tariffs to compensate countries whose quotas are limited.

Fourth, the textile bill seeks to preserve a vital, competitive industry. A recent study by the Office of Technology Assessment found that the textile and apparel industry had become a "high technology enterprise." Between 1975 and 1985, productivity in textiles and apparel grew at twice the rate for manufacturing as a whole. Textiles and apparel lead the nation in the funds they reinvest in order to stay competitive. The problems facing the textile and apparel industries come through no fault of their own.

Fifth, the textile bill seeks to save American jobs. Since 1980, imports have cost us over 700,000 textile and apparel job opportunities. Plant after plant has closed in North Carolina. And when a plant closes, the losses shake the entire community. Car dealers, real estate agents, small businessmen and women -- all feel the economic shock.

And finally, the textile bill meets an important national security need. A strong domestic textile industry is crucial to our national defense. President Kennedy recognized this over twenty years ago. His administration held Cabinet-level hearings that determined that, next to steel, the textile industry was the most important for our national defense. That holds true today.

I have talked about the textile bill in policy terms. Let me now talk about it in personal terms. Textile workers are hard-working, productive and loyal. Many are women. Sometimes entire families work in one mill. When that mill closes, they have nowhere to turn.

These people take pride in their work; they know they produce a quality product. They know their goods sell at competitive prices. And they know that their jobs are in jeopardy, hinging on Washington's willingness to make our trading partners play by the rules.

Let's not let them down. Last year, the House failed by only a handful of votes to enact the textile bill over the president's veto. This year, we have a new House, a new Senate and a new determination to see that American workers get a fair shake. And that, after all, is what the textile bill is all about.

TESTIMONY OF
CONGRESSMAN BEN BLAZ
GUAM

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I OPPOSE TO THE INCLUSION OF GUAM AND THE OTHER INSULAR POSSESSIONS IN S. 549 AS "COUNTRIES". THIS BILL PLACES THE U.S. TERRITORIES IN THE SAME CATEGORY AS FOREIGN COUNTRIES FOR THE PURPOSE OF IMPOSING GLOBAL QUOTAS ON TEXTILES AND APPAREL. WE IN GUAM ARE AMERICANS. WE HAVE LOYALLY FOUGHT FOR THE CAUSE OF DEMOCRACY AND FREE ENTERPRISE. WE SUFFERED THE OCCUPATION BY JAPANESE IN WORLD WAR II AND NEVER BROKE FAITH WITH OUR MOTHER COUNTRY. OUR SONS FOUGHT IN KOREA AND VIETNAM WITH DISTINCTION. YET, THIS BILL TELLS US OUR FAITH IN THE UNITED STATES IS NOT RECIPROCATED. WE ASK NO MORE OF OUR FEDERAL GOVERNMENT THAN TO BE TREATED AS OTHER AMERICANS AND AFFORDED THE OPPORTUNITY TO DEVELOP OUR MODEST APPAREL INDUSTRY AND CREATE JOBS FOR GUAMANIANS. THERE IS NO JUSTICE IN DENYING JOBS TO VETERANS AND OTHER LOYAL AMERICANS IN GUAM.

THIS BILL WILL STRIKE A BLOW AGAINST PRIVATE ENTERPRISE IN GUAM BOTH NOW AND IN THE FUTURE. INCREDIBLY, THE IMMEDIATE EFFECT OF THIS BILL WILL BE TO FORCE GUAM TO COMPETE WITH FOREIGN COUNTRIES FOR A SHARE OF LIMITED GLOBAL QUOTAS. AN AS YET UNNAMED FEDERAL AGENCY WILL APPORTION THE GLOBAL QUOTAS AMONG THE COMPETING FOREIGN COUNTRIES AND THE AMERICAN TERRITORIES. THIS FRAMEWORK AFFORDS NO CERTAINTY THAT THE ADMINISTRATION WILL GRANT GUAM THE PRIVILEGE TO SHIP THE SAME AMOUNT OF SWEATERS TO THE MAINLAND THAT IT CURRENTLY ENJOYS. AT PRESENT, THE TEXTILES CONCERN IN GUAM SHIPS 140,000 DOZEN SWEATERS ANNUALLY AND EMPLOYS OVER THREE HUNDRED U.S. CITIZENS AND RESIDENT ALIENS IN GUAM. WHAT IS CERTAIN, HOWEVER, IS THAT GUAM WILL NOT BE ABLE TO MATCH THE LOBBYING POWER OF TAIWAN AND HONG KONG IN THE GRAB FOR SHARES OF THE QUOTAS. MANY YEARS OF AMERICAN INVESTMENT IN THE AMERICAN TERRITORY OF GUAM WILL NO DOUBT BE LOST IN THE ENSUING FRAY. THE LOSS OF THE RIGHT TO SHIP SWEATERS FROM GUAM TO THE UNITED STATES FREE OF QUOTAS WILL FORCE HUNDREDS OF FORMER TEXTILE WORKERS AND THEIR DEPENDENTS ON TO THE PUBLIC DOLE. IN THIS ERA OF RISING FEDERAL DEBT, TAXPAYERS IN YOUR DISTRICT AS WELL AS MINE CAN ILL-AFFORD TO SHOULDER THIS HEAVY BURDEN. THE LOSS OF TAX REVENUE WILL ALSO HANDICAP THE GOVERNMENT OF GUAM WHICH IS ALREADY IN SERIOUS FINANCIAL STRAITS.

THE SECONDARY AND MORE DRASTIC EFFECT OF THIS BILL WILL BE TO SOUR POTENTIAL INVESTORS ON THE PROSPECTS OF FURTHER INVESTMENT IN GUAM. CAPITAL INVESTMENT IS THE SEED FROM WHICH ALL PRIVATE ENTERPRISE GROWS. GUAM CANNOT DEVELOP ITS PRIVATE INDUSTRY WITHOUT IT. YET, THIS BILL WILL TELL INVESTORS TO AVOID INVESTMENT IN THE TERRITORIES WHERE THE UNITED STATES CONGRESS CUTS DOWN NEW BUSINESSES ONCE THEY HAVE TAKEN ROOT. THE BILL WILL ADD THE TEXTILE INDUSTRY TO THE LIST OF GUAMANIAN INDUSTRIES WHICH HAVE BEEN HAMSTRUNG TO DESTROYED BY FEDERAL FIAT: WATCHMAKERS, AN OIL REFINERY, AUTO DEALERS AND A LOCAL AIRLINE HAVE ALL BEEN RUN OUT OF BUSINESS AS THE RESULT OF FEDERAL POLICIES. THIS PATTERN SHOULD NOT BE ALLOWED TO CONTINUE. THIS HOUSE LONG AGO RECOGNIZED THE UNIQUE AND PECULIAR PROBLEMS OF THE TERRITORIES IN ATTEMPTING TO COMPETE WITH LOW-WAGE, UNREGULATED FOREIGN INDUSTRY. GENERAL HEADNOTE 3(a) TO THE TARIFF SCHEDULES OF THE UNITED STATES HAS BEEN RECOGNIZED AS AN EXPRESSION OF CONGRESSIONAL CONCERN FOR THE WELL-BEING OF PRIVATE ENTERPRISE IN THE TERRITORIES. S. 549 REVOKES THIS POLICY AND TREATS THE TERRITORIES AS IF THEY WERE FOREIGN COUNTRIES FOR TRADE PURPOSES. THE FLAG TERRITORIES WILL BE THRUST ONCE AGAIN INTO THE IMPOSSIBLE POSITION OF COMPETING WITH FOREIGN COUNTRIES FOR THE

AMERICAN IMPORT MARKET WHILE STILL BEING SUBJECT TO FEDERAL WAGE, SAFETY AND POLLUTION STANDARDS. PRIVATE INDUSTRY IN THE TERRITORIES WILL SUFFER. THE INEVITABLE RESULT WILL BE FURTHER DEPEDENCE ON FEDERAL SUBSIDIES TO SUPPORT GUAM'S ECONOMY AND INCREASING DISENCHANTMENT AMONG GUAMANIANS WITH WASHINTON'S INSENSITIVE TRADE POLICY.

THERE IS ALREADY A SMALL BUT GROWING COMMUNITY OF YOUNG, EDUCATED GUAMANIANS WHO CHALLENGE THE NOTION THAT POLITICAL UNION WITH THE UNITED STATES IS DESIRABLE. THIS BILL WILL SUPPLY THAT VOCAL GROUP WITH MORE FUEL FOR THEIR FIRE.

I WILL INTRODUCE LEGISLATION IN CONGRESS TO PROPOSE A NEW POLITICAL STATUS, THAT OF A COMMONWEALTH, FOR THE TERRITORY. A NEW POLITICAL ORDER WILL BE SOUGHT WITH THE UNITED STATES BASED ON THE PREMISE OF MUTUAL RESPECT AND EQUALITY. WE ARE LAYING THE FOUNDATION OF THAT RELATIONSHIP TODAY. UNFORTUNATELY, S. 549 INDICATES THAT THE UNITED STATES INTENDS TO TREAT GUAM IN THE FUTURE AS A FOREIGN COUNTRY RATHER THAN A MEMBER OF THIS COUNTRY'S POLITICAL FAMILY.

THIS CHANGE IN THE COURSE OF FEDERAL-TERRITORIAL RELATIONS WILL HOLD ENORMOUS SIGNIFICANCE FOR THE FUTURE STRATEGIC PRESENCE OF THE UNITED STATES IN THE PACIFIC REGION. THE SOVIETS ARE DETERMINED TO EXPAND THEIR SPHERE OF INFLUENCE IN THE PACIFIC. THEY ARE ACTIVELY COURTING PACIFIC ISLAND NATIONS WITH TUNA DEALS, MONETARY AID AND EDUCATION AND ARE TREATING THESE NATIONS WITH THE RESPECT THAT THEIR COUNTRIES' STRATEGIC LOCATIONS MERIT. WE NOW KNOW THAT THE SOVIETS' OFFERS HAVE MET WITH SOME SUCCESS. GIVEN SOVIET EXPANSIONISM, POLITICAL INSTABILITY IN THE PHILIPPINES AND GROWING ANTI-NUCLEAR SENTIMENT IN THE REGION THE UNITED STATES MUST GIVE CAREFUL CONSIDERATION TO EVERY DECISION WHICH AFFECTS THIS AREA. IN THIS REGARD S. 549 DOES NOT PASS MUSTER.

GUAM IS AN IMPORTANT ELEMENT IN AMERICA'S STRATEGIC PRESENCE IN THE PACIFIC. ITS BEST INTERESTS, COMMERCIAL AS WELL AS MILITARY, MUST BE CONSIDERED IF THE U.S. FORCES IN GUAM ARE TO RETAIN THE GOODWILL OF GUAMANIANS. S. 549 DOES NOT MEASURE UP TO THIS STANDARD AND IS NOT A PRUDENT STEP IN FURTHERING THE FUTURE POLITICAL RELATIONSHIP BETWEEN GUAM AND THE FEDERAL GOVERNMENT.

I HAVE DRAFTED AN AMENDMENT TO S. 549 WHICH WILL CREATE LIMITED EXCEPTIONS FOR THE TERRITORIAL APPAREL MANUFACTURERS WHO EMPLOY U.S. CITIZENS, NATIONALS AND RESIDENT ALIENS. A COPY OF THIS AMENDMENT IS ATTACHED TO MY TESTIMONY FOR YOUR CONSIDERATION. I URGE YOU TO ADOPT THIS AMENDMENT AND SHOW GUAM THE CONCERN IT DESERVES AS A LOYAL AND STRATEGIC FLAG TERRITORY. GUAM AND THE OTHER FLAG TERRITORIES SHOULD BE ALLOWED TO DEVELOP A MODEST APPAREL INDUSTRY. THE FUTURE OF PRIVATE INDUSTRY IN THE TERRITORY AND THE STRATEGIC SECURITY OF THE UNITED STATES DEPEND ON IT.

STATEMENT ON BEHALF OF THE AAEI FOOTWEAR GROUP

The AAEI Footwear Group is an integral part of the American Association of Exporters and Importers. AAEI, as a whole, consists of approximately 1100 U.S. company members involved in every facet of international trade. The AAEI Footwear Group consists of over 60 footwear importers, including a few retailers which import. The Group's primary focus is on imported footwear although some of the Group members also export footwear to foreign markets.

AAEI's Footwear Group opposes S.549. The bill's inconsistencies with U.S. international obligations and excessive costs to the U.S. economy argue strongly against its passage.

The U.S. footwear market is varied and the footwear consumer is discriminating. The price, quality and fashion sense of foreign footwear has long appealed to U.S. consumers. Foreign manufacturers are quick to recognize changes in fashion, and are responsive to changes in U.S. style and tastes. The ability to respond to changes in the market is a key element of a competitive manufacturer, foreign or domestic.

The streamlining in response to natural competition has resulted in a highly profitable and productive U.S. footwear industry. AAEI's Footwear Group sympathizes with and recognizes the plight of the domestic footwear workers. They are often caught in the middle when a U.S. company decides to maximize its profits. The past decade has seen the domestic footwear industry make itself lean in response to international competition. That a streamlined U.S. industry should result in increased imports should come as no surprise. In its preparation and research for the 1985 International Trade Commission (ITC) section 201 investigation, AAEI's Footwear Group discovered that the domestic footwear industry accounts for close to 50% of all imports into the U.S. These U.S. companies made rational business decisions to source their goods competitively, and chose foreign sources at lower prices -- maintaining or increasing quality. Permanent quotas on non-rubber footwear at 1986 levels as proposed by S.549, would not only excessively burden U.S. consumers, it would deny the U.S. footwear industry the flexibility to compete in the world market.

The Footwear Group believes the argument against passage of S.549 can be framed in terms of cost — the cost internationally and the cost to the U.S. economy.

The textile and apparel portion of S.549 undoubtedly violates the MFA and the present bilaterals the U.S. has with the textile and apparel producing countries. Some of the U.S. trading partners already have threatened to retaliate. The international legality of footwear quotas may be less clearcut, but they are nonetheless as dangerous. Permanent growth quotas on footwear would be inconsisent with GATT Articles XI and XIX, despite Congress' "determination" to the contrary. Article XI provides that "no prohibitions or restrictions other than taxes, or other duties, charges, whether made effective through quotas, import or export licenses or other measures shall be instituted or maintained by any contracting party....". Article XIX, known as the "escape clause" is entitled Emergency Action on Imports of Particular Products", and allows a country to provide temporary relief for an industry facing increased imports as a result of unforseen developments and the effect of GATT obligations. The U.S. Congress has incorporated this GATT "escape clause" into U.S. trade law, initially as §6B of The Trade Agreements Extension Act of 1951. Its current form is found in §201 of the Trade Act of 1974 (19 U.S.C. §2251 et seq.). The entire footwear industry, including domestic producers and U.S. importers, is well acquainted with §201, having been through five such investigations in the past seventeen years. Proponents of the footwear quota proposals in S.549 cite the §201 footwear investigation of 1985 and ultimate denial of relief as proof that the U.S. trade laws do not work and that unilateral action is necessary to provide relief for the U.S. footwear industry.

To the contrary, the AAEI Footwear Group believes that the 1985 investigation and the President's determination of "no relief" are proof that the U.S. trade laws function as intended. The President, as proscribed by statute, found that the cost of providing relief from increased footwear imports was too high for U.S. consumers and business to bear and thus, not within the "national economic interest". The cost to the international standing of the U.S. should this bill be passed also would not be in the nation's economic interest.

S.549 attempts to be non-discriminatory in that a global quota on non-rubber footwear would be established. Regardless of whether the quota is global or country-specific, enactment of the bill would invite retaliation by U.S. trading parters. Italian, French and Spanish producers of high quality footwear will be subject to quotas needlessly, as will the producers of low-priced footwear. There is little or no domestic competition in these areas. The domestic industry has little to gain except reprisal against U.S. exports should S.549 be made law. The tariff compensation provided in section 5 of the bill, with all its qualifications, will do nothing to offset the harm to the international trading system and the harm to the U.S. ability to negotiate in the Uruguay Round. The U.S. can ill-afford to pass protectionist, sector-specific legislation at the initiation of a new round of multilateral trade negotiations.

Protection of athletic footwear is particularly burdensome and needless. There is virtually no U.S. manufacturing capacity for athletic footwear. Approximately 99% of such footwear is imported today. Quotas would impose a higher cost to the consumer, would result in lower availability of desirable products and would not benefit an existing industry.

Enactment of S.549 also would result in excessive costs to U.S. consumers and businesses, in addition to its negative international implications. In 1977, President Carter upheld a section 201 investigation finding of increased footwear imports causing injury to the U.S. industry. Voluntary restraint agreements (VRA's) were negotiated with South Korea and Taiwan. These VRAs coupled with the fact that non-rubber footwear was not allowed duty reductions under the Tokyo Round or the advantage of duty-free treatment under the Generalized System of Preferences Program or the Caribbean Basin Initiative, cost the U.S. consumer $700,000,000, at a cost per job saved of $55,000 (Hufbauer, et al., TRADE PROTECTION IN THE UNITED STATES: 31 CASE STUDIES, at 15; Institute for International Economics, Wash. DC 1986). It has been estimated that passage of S.549 would cost U.S. consumers over $2 billion a year over a period of ten years, at a cost per footwear industry job saved of over $140,000. Proponents' claims that this bill will save the federal government hundreds of thousands of dollars by avoiding unemployment insurance and other payments fail to take into account the total effect on jobs outside the U.S. textile industry.

As has been consistently shown in the past, with the VRA's on automobiles a prime example, quotas (VRA's) raise the price of both domestic and imported goods. Higher prices especially for "low end" or budget footwear, will hurt the poorer U.S. consumers and those on fixed incomes the most.

The cost, domestically and internationally, of global quotas on U.S. footwear imports far outweighs whatever benefits the bill may bestow. Protections of a profitable, productive, and streamlined footwear industry makes neither economic or political sense. Importers also provide jobs -- especially companies like Reebok, Puma, Nike, Converse and others whose Research and Development activities are largely in the U.S. The reduced strength of the U.S. dollar has already benefitted the domestic footwear manufacturing industry. Is this really the time when footwear quotas are needed? AAEI's Footwear Group urges that Congress oppose passage of S.549, in the national interest.

STATEMENT OF ARNOLD DELIN
EXECUTIVE DIRECTOR, ATLANTIC
APPAREL CONTRACTORS' ASSOCIATION, INC.
PRESIDENT, KEYSTONE APPAREL ASSOCIATION

At the outset I wish to make a distinction in order to keep my statement in proper focus. The apparel business is usually lumped together with the textile industry and apparel manufacturers and apparel contractors are often viewed as one and the same. Actually, the textile and apparel industries are separate entities, each with its own problems, each with a life of its own.

The textile industry makes the fabrics for the apparel industry. The apparel manufacturers in turn style various garments from the fabrics for the retail trade or the consumer. Because many manufacturers do not have the facilities for producing finished garments, they ship the fabric and trimmings to the contractor who performs the cut, sew and trim operations and then ships the garments back to the manufacturer for sales distribution.

My constituency is composed of apparel contractors. This means that the members of our trade association are, in effect, selling labor to manufacturers and we are selling labor against the most intense kind of unfair labor competition in the entire world.

For the past decade American contractors have been trying their utmost to compete with low-wage Far East countries such as South Korea, Taiwan, Hong Kong, Bangladesh, Sri Lanka and since 1983 the Peoples Republic of China has emerged as the number one source of apparel imports. I wish to note here that wages in China are as low as twenty-five to thirty cents per hour!

As if this unfair competition from the Far East were not enough, domestic apparel contractors have, in the last few years, become faced with another set of low-wage competitors. Under the provisions of Title 807 of the U.S. tariff code, we now must also compete with some 25 emerging nations of the Caribbean Basin. 807 provides that fabric must be produced in the United States and cut here before it is shipped to the Caribbean Basin contractors to be sewn into a finished product, and shipped back to the U.S. and the importing manufacturers pay only a small import tax based on value added which in the case of the Caribbean region is small indeed.

The requirement under 807 that textiles be made in the U.S. may be fine for the textile business. But it impacts adversely on domestic apparel contractors who cut and sew.

So, here in 1987, apparel contractors are locked in a two-front labor-competitive war with the usual Far East countries and now with the Caribbean Basin nations.

Little wonder that our ranks have been so terribly decimated!

To demonstrate more specifically how the U.S. free trade policy has battered us, a decade ago when imports first became a problem, the Atlantic Apparel Contractors' Association had a membership of about 570 apparel contractors, all of whom were employers. Collectively these 570 employers were providing over 40,000 jobs, paying their taxes on every government level, contributing to local charities and, through the multiplier effect, providing revenues for ancillary community businesses of every kind.

Today, here in 1987, our membership has dwindled to only 190 members -- a loss of two-thirds of our members and a loss of over 27,000 jobs in Pennsylvania alone. Virtually all these losses can be directly attributable to the impact of imports from low-wage foreign countries.

These figures dramatically demonstrate that due to imports, the apparel contracting business has in effect been deported to off-shore apparel contractors.

As you can imagine, the contractors who make up the Atlantic Apparel Contractors' Association -- and hundreds of other contractors around America -- feel bitter and betrayed. They feel bitter at the turn of events and they feel betrayed by their government.

Many of our members have not only lost their businesses but their life savings as well. And their employees who have worked for them for years have also been left out in the cold with no place to go for employment because factory after factory has suffered a similar fate. Small communities like Roseto, Wind Gap, Minersville, Tatamy have empty buildings and unemployed apparel workers with no future. They are bitter -- bitter because they question a free trade policy that favors businessmen in the Far East and Caribbean Basin over them -- a free trade policy that has resulted in the virtual loss of America's manufacturing base throwing many companies into bankruptcy ruin -- a free trade policy that has made the United States a debtor nation -- a policy that has resulted in monumental trade deficits -- a policy that concerns itself with the economic welfare of our trading partners at the expense of U.S. industries and their employees.

Two additional points need to be emphasized. First, the Atlantic Apparel contractors' Association did not seek help from the U.S. government without first trying to help themselves. Over the years they have desperately tried to compete against impossible odds. They have re-engineered their factories, they have dug into their rapidly dwindling resources to buy high-tech equipment to speed productivity, they have attended scores of association-sponsored seminars in modern business techniques, and put into place speedier production procedures and labor intensive programs. In short, they have tried very hard to help themselves first before seeking help elsewhere.

Second, based on this effort, we know that we can compete with foreign competitors with respect to producing a quality garment. The charge that, somehow, imported garments are better than those produced domestically is just not factually true. We have the equipment to produce any garments that domestic manufacturers want. We have the desire and the initiative, perhaps born of desperation, to effectively compete in these areas. But since the business of apparel contractors is selling labor, there is just no way that based on our labor costs we can compete with wages paid in the Far East and Caribbean nations.

The easy answer to this problem, as articulated by some free traders, is that Americans will have to take sharp pay cuts and reduce their standard of living in order to be competitive. Reduce the apparel worker's standard of living? In an industry where the average wage paid to our employees is only about $5.50 and $6.00 an hour, with many of them single household providers, they already live at either the poverty level or slightly above it. How much further could their cost of living be reduced?

In short, the loss of thousands of apparel jobs and the bankruptcy of hundreds of contractors is proof that we just cannot meet this unfair competition no matter how hard we try -- no matter how hard we work!

If the policy of the Administration and/or the U.S. Congress is to sacrifice the apparel contracting business on the altar of an unworkable free trade policy, then there is not the slightest doubt that there will be more bankruptcies, more unemployment of apparel workers, more disullusionment, more bitterness.

There is only one way that can hold out any promise of halting the rapid slide to oblivion of the apparel contractors of Pennsylvania and the nation -- and that way is for the Congress to enact the Textile and Apparel Trade Act of 1987 without delay.

I thank you for the opportunity to present the views of the two associations for which I speak.

Respectfully submitted,

Arnold Delin

Arnold Delin

Views Of
AVIA GROUP INTERNATIONAL, INC.
PORTLAND, OREGON
On
PROPOSED FOOTWEAR IMPORT QUOTAS
Mandated By
THE TEXTILE AND APPAREL TRADE ACT OF 1987

AVIA was founded just seven years ago in Portland, Oregon and is now a market and technological leader in aerobic and other athletic shoes. The company currently employs over 160 people in our Oregon facilities, a number which is growing rapidly. Very simply put, had this legislation been in place seven years ago, AVIA (and the employment and consumer benefits it has generated) would not exist today. AVIA Group International, now a subsidiary of Reebok International opposes both the Senate and House versions of The Textile and Apparel Trade Act of 1987.

We at AVIA share the deep concerns of many in this country over the adverse effects of textile/apparel and footwear import quotas which S.549 and its House counterpart, HR 1154, seek to impose. These bills as applied to footwear, would require a reduction in future non-rubber footwear imports from all countries by freezing them at 1986 levels. The actual quotas would be imposed on a category-by-category basis, subdivided into imports over and under $2.50.

I. Quota Legislation is not Consistent With the Objectives of U.S. Trade Policy, the 1987 Omnibus Trade Act, nor Even the Gephardt Amendment

We will describe specifically why the S.549/HR 1154 is counterproductive in terms of domestic economic impact, how it strives, in the case of our products, to protect a nonexistent domestic industry, and the specific reasons why that industry does not exist in this country.

However, we must first point out that this legislation is the most blatant instance of protectionism to be considered by Congress this year. Neither the Omnibus trade bills which have passed both the House and Senate, nor the Gephardt Amendment, which has in various forms passed both Houses, seeks to penalize foreign industries merely because they are foreign.

Yet that is precisely the objective of the textile/footwear quota Congress is now considering. The Omnibus trade bill and the Gephardt Amendment seek to address unfair foreign trade practices. While we do not support the means by which those bills seek to eliminate those practices, we can support the underlying objective of doing so. The Textile and Apparel Trade Act of 1987 has no such objective.

The "purposes" section of S.549/HR 1154 alleges no unfair practices, no foreign subsidies, no foreign trade barriers. S.549/HR 1154 simply seeks to stymie foreign competition for two domestic industries, without any understanding as to the reasons for preponderance of the foreign manufactured goods, regardless of whether the domestic industries will significantly prosper from such protection, in the longterm, regardless of whether the foreign products have competed fairly, regardless of the impact of such legislation on the rest of our economy, and regardless of specific retaliatory action promised by our closest trading partners.

As an example of just how irresponsible this legislation is, it seeks to protect an industry (athletic leather footwear) which has not existed in this country.

This effort to build a wall around our U.S. marketplace undermines existing and ongoing efforts to protect our textile and apparel products, including the existing

Multifiber Arrangement, and over 200 quotas which limit competition for the domestic textile and apparel industry. It ignores current bilateral agreements with Korea, Taiwan, Japan and Hong Kong to hold growth of imports of textile/apparel products to less than 1% per year. It does not consider why U.S. tariffs, averaging 18%, and as high as 37% in the case of canvas used for much of the domestically produced athletic footwear, have not prevented imports. It ignores the economic burden the quotas will create, particularly on low and middle income consumers.

Unfair practices must be addressed, and Congress is attempting to do so. It would seem that in those industries and services where our cost and the foreign cost are reasonably close, such as high tech and banking, elimination of unfair practices will assure a market for U.S. products. That is the thrust of all legislation considered by Congress this year: to maintain the ability of our U.S. industries to compete fairly. S.549/HR 1154 is, therefore, an aberration. It does not seek to allow the U.S. textile and footwear industry to compete. S.549/HR 1154 is an act of surrender. It suggests that our domestic industry cannot compete, that it can only exist if foreign products are restrained or eliminated from the U.S marketplace -- in fact preventing competition.

AVIA is opposed to any protectionist legislation in the form of S.549/HR 1154, regardless of the product sought to be excluded from the U.S. market place. The erection of any product-specific quota without assessment of the underlying causes is an extremely dangerous precedent for all goods and services. We would just as vehemently oppose this legislation if it set quotas for pencils and paper. However, as manufacturers of footwear, we are particularly concerned with the impact of this legislation on all footwear imports. We can best describe the dangers of S.549/HR 1154 by reference to the athletic leather footwear AVIA manufactures in Taiwan and sells in this country and foreign markets.

II. Athletic Import Quotas: Both Futile and Dangerous

S.549/HR 1154 would freeze 15 categories of nonrubber imports at last years levels. These include canvas-topped deck shoes and traditional canvas basketball shoes. While these types of shoes are largely imported, a significant percentage are assembled (as opposed to manufactured) in the United States. This is largely due to the protection afforded by the existing 37% tariff on canvas imports and the relatively lower labor component of assembling these generally unchanging and uncomplicated models.

"Athletic leather" footwear is one of the bill's 15 general product categories subject to the import "freeze." These are the high tech aerobic, running, and basketball shoes, for example, the chief product of the upper being leather, which have come to dominate the domestic athletic footwear market. This is precisely the product that AVIA manufactures and markets.

A. **Historical Perspective**. The growth in the "athletic leather" market has been spectacular and, from its inception, characterized by foreign manufacturing. In 1980, the U.S. market for noncanvas athletic footwear was 68 million pairs. By 1986 the U.S. market had increased to 222 million pairs as a result of the ongoing fitness boom. According to U.S. Commerce Department statistics, import penetration of athletic leathers in 1986 was 98.1 percent of total domestic consumption. There is, practically speaking, no domestic athletic leather industry.

Even the remaining 1.9 percent of the so-called domestic production has involved -- and continues to involve -- the mere assembly of athletic shoes from imported components. Assembling, which is what S.549/HR 1154 would essentially protect, simply involves the attaching of already manufactured and imported midsole/outsole units to already completed and imported uppers. This is, at best, less than 20% of the process of manufacturing an athletic shoe, and as the least labor intensive, the least likely to create or protect U.S. jobs.

B. Sensitivity to Labor Costs. The manufacture of footwear generally, and athletic leather footwear in particular, is supremely sensitive to labor costs. Regardless of the technological sophistication or protective trade barriers, the manufacture of footwear tends to flow to those nations with low labor costs. For example, Japan, unlike the United States, did have a domestic athletic leather footwear industry. Despite protective trade barriers and technological sophistication, much of that production has now shifted to other nations with lower labor costs, such as Korea, Taiwan and Malaysia. Even Japan has found it undesirable to guarantee its domestic market to its producers.

The United States experience is similar. The American Association of Exporters and Importers (AAEI), in its preparation and research for the 1985 International Trade Commission section 201 investigation, found that the domestic footwear industry imports close to 50 percent of all footwear it sells in the United States. This trend continues to despite existing tariffs on imported athletic and nonathletic footwear. Even tariffs are insufficient to protect or create a domestic industry in view of the underlying reasons that this product has been produced abroad.

While wehave set forth a number of reasons why athletic leather footwear has historically been manufactured abroad, these reasons also apply to footwear generally.

III. Costs of Quotas

A. Consumer Costs. The danger with S.549/HR 1154 is that it does not make any rational effort to address the factors mandating foreign manufacturing. It simply limits imports, at any cost. Let me describe what that cost will be to consumers, using our products as an example.

Just as import quotas would not help U.S. producers, it is equally clear that they would only hurt the American consumer. The International Trade Commission estimates that footwear quotas will cost consumers about $6.9 billion over ten years, since decreases in footwear imports will cause an increase in retail prices of imported footwear. The scarcity of affordable shoes and higher prices will have the greatest impact on low and middle income families because the shoes they depend on -- the lower priced and athletic types -- will soar in price.

We calculate that the assembly of AVIA's 460W model, our best-selling athletic shoe, (now retailing for $46.95) would result in a 26% retail price increase (to $58.95). When wesay assembly we mean the lacing of already manufactured and imported component footwear parts. If AVIA were to actually manufacture and assemble all components of the shoe in the U.S., the retail price increase would be 90% (to $88.95).

B. Employment Costs. A stated policy objective of this bill is to save non-rubber footwear manufacturing jobs; however, it is important that Congress consider the impact of this proposal on all jobs which will be affected by footwear import quotas. Indeed, if you compare the gains in footwear manufacturing jobs with losses in footwear retailing jobs caused by imposition of these restrictive quotas, you will find a net loss of employment opportunities, especially in athletic footwear, since the price gap which we just mentioned would be greater in this category than in any other footwear category.

Indeed, as applied to footwear in general, independent research supports these statements. For example, a study conducted by the International Business and Economic Research Corporation (IBERC) predicts that the proposed footwear import quota will save 15,600 factory jobs in 1987. However, the IBERC study also estimates that such quotas would cause a loss of 22,102 retail footwear jobs. This is because reduced imports would not be fully replaced by increased sales of domestic substitutes. Such losses would also be attributed to the fact that, with higher prices for both imported and domestic footwear, consumers would purchase smaller quantities. Thus, the quotas would result in an overall **net loss of over 6,500 American jobs in the retail footwear industry alone**, not to mention the thousands of employees of companies such as ours. Of course, this does not even take into account the vast numbers of other jobs that would be sacrificed due to retaliatory action against the footwear quotas.

IV. Retaliation

American exports have already been targeted for retaliation if the footwear/apparel quotas become effective, especially agricultural exports, high technology and other goods in which the United States enjoys a comparative advantage. The European Economic Community has informed the USTR of its intention to introduce retaliatory measures against American products if the legislation is passed. Sir Roy Denman, the E.C.'s U.S. representative, stated in a letter to Senate Finance Chairman Lloyd Bentson that if the textile/footwear quota bill is passed, "there should be no doubt that the E.C. will retaliate against United States exports." Deputy Trade Representative Michael B. Smith, in testimony before the House Ways and Means Committee, stated that the E.C. has also informed the administration of its intention to introduce retaliatory measures specifically against U.S. agricultural and high technology exports if the quota legislation is passed. Ambassador Smith stated further that other trading partners will follow the European example.

In fiscal year 1986, according to U.S. Department of Agricultural statistics, U.S. farmers exported about 20 million metric tons of the major farm products (e.g., soy beans and oil, corn, wheat) to the E.C. alone. In the case of high-tech, the Department of Commerce estimated that in calendar year 1986, over $23.3 billion of the 10 leading high-tech products were exported to the E.C. nations alone. Thousands of jobs are dependent upon these exports, and they will be jeopardized severely if the E.C. keeps its promise. Indeed, history bears this out, as other countries have taken specific action against U.S. protectionist trade policies. We should not forget that the Chinese recently had cancelled $500 million in U.S. wheat purchases when we restricted $37 million in textile imports.

V. Effect on the U.S. Importer -- Disruptive Quota Allocations

Quotas assure imposition of import allocation, including quota auctioning which would be highly disruptive and costly without any compensating benefits. Such a system of auctioning quotas would encourage abuses such as accumulation of the quota shares by those few importers and retailers with the greatest economic strength who are able to take the financial risk of outbidding smaller and medium sized firms. And, the higher the bid, the greater the ultimate price to the consumer. The bill is not specific as to how quotas will be allocated, but merely empowers the Secretary of Commerce to prescribe regulations necessary to administer the Act. While safeguards can be developed against some of the potential abuses associated with quota auctioning or licensing, it would take an increased federal bureaucracy to administer such a program. Perhaps the greatest danger of this quota legislation is that it would severely dampen innovation and market entry.

Quotas have to be distributed, and among the means of distributing quotas, quota auctioning seems to have generated some interest among members of this Committee. Had quota auctioning been in place at the time that AVIA was conceived several years ago, it is highly unlikely that we would have had the opportunity to establish ourselves and contribute to the development of athletic footwear as we have. Quotas, under an auction system, would be purchased by investors, or most likely, those who already hold a large market share. In short, those with a capital and resources. New entrants without market reserves commensurate with their established companies would be essentially barred from competition.

Such a barrier to entry is certainly not characteristic of our economic system, and will be a significant damper in our industry which has generated substantial economic growth in the past few years.

VI. Summary

In sum, the proposed quotas on imported footwear, based upon our experience with athletic leather footwear, would create significant economic injury while doing little to assist the targeted American industry.

First, the quotas would cost more jobs than they would create.

Second, the quotas would greatly increase U.S. consumer costs.

Third, the quotas would stymie innovation and discourage new investment.

Fourth, the quotas would not result in the manufacture of footwear in the U.S. -- only assembly.

Fifth, in the case of athletic leather footwear, it would "protect" an industry which does not exist domestically.

Sixth, the quotas ignore the real economic reasons why footwear is manufactured abroad.

Seventh, the quotas have already invited retaliation.

Eighth, unfair trade practices have not been identified; the quotas are not designed to eliminate foreign unfair trade practices; rather, S.549/HR 1154 creates a new unfair trade barrier of our own.

For these reasons, AVIA believes The Textile and Apparel Act of 1987 (S.549/HR 1154) must be defeated.

CALIFORNIA COUNCIL FOR INTERNATIONAL TRADE

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August 5, 1987

Sen. Lloyd Bentsen, Chairman
Senate Finance Committee
SD-205 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator Bentsen:

On behalf of the membership of the California Council for International Trade, I want to take this opportunity to voice CCIT's strong opposition to S. 549, the Textile and Apparel Trade Act of 1987.

CCIT is an 800-member statewide association representing some of California's largest corporate employers, as well as small importers and exporters. Its purpose as an organization is to encourage the free flow of trade as a means of providing jobs, economic growth and a broader range of consumer choice for Californians.

We were actively opposed to last year's Jenkins textile quota bill before both the House and Senate, and are deeply concerned about prospects for passage of this proposal for the same reasons. In 1987, however, the arguments against further textile quotas are even more compelling.

CCIT views S. 549 as a further extension of an already bloated protectionist program, whose purpose is simply to redistribute income from other areas of the economy to one particular industry sector. As of 1984, U.S. textile manufacturers already benefitted from some $27 billion in quota costs added on to the price of imported textiles and apparel under existing textile agreements. Last year, the Administration--in order to head off even more restrictive legislation--negotiated sharp quota reductions for Taiwan, South Korea and Hong Kong which cost consumers another $6.7 billion annually.

Subsequently, employment in the U.S. textile industry rose by about 20,000 jobs last year, with most of the new employment made up of relatively low-paying plant jobs paying an average $12,500 a year. To protect these jobs, in effect, cost consumers $335,000 per job.

Unfortunately, S. 549 appears to promise more of the same. Should it pass, a seven percent increase in import textile and apparel prices will cost consumers another $10.4 billion annually to protect 46,700 plant jobs at an estimated price tag of more than $223,000 per job. At the same time, however, some 52,000 retailing jobs will likely be lost as a result of higher import and domestic prices and reduced sales. It is also likely that a number of U.S. apparel makers who import their fabric may be priced out of business as their manufacturing costs increase, leading to further losses in employment.

Should the quotas in S. 549 lead to retaliatory measures, California could be harder hit than any other state. One-third of California's annual agricultural crop is sold overseas, for example, and one in five agricultural jobs across the state is tied to exports. California is also a leader in the manufacture and export of high-tech products, with many of its principal markets in Asian textile-producing countries.

Apart from all of the reasons presented above, CCIT is opposed to S. 549 because it is unnecessary. Even before last year's stiffening of textile quotas, the segment of the textile industry that has demonstrated a willingness and an ability to compete had already restructured and was doing well. In 1986, with plants operating at a record 88 percent of capacity, the industry hired back 10,000 workers at mill wages 6.2 percent higher in real terms than 1985 levels. This was during a period in which real wages for Americans averaged a drop of nearly 1 percent.

Since March 1986 weekly textile wages have risen 7.7 percent, five times the nationwide average of 1.7 percent. Since 1983, personal income and payroll job growth in the four major textile-producing states--North Carolina, South Carolina, Georgia and Alabama--have outpaced the national average.

CCIT urges the committee to reject S. 549 as a solution to economic problems that extend beyond the realm of trade. It is legislation that will hurt far more American workers than it helps while limiting the choice and purchasing power of our consumers.

Sincerely,

Harry B. Endsley
Chairman, Legislative Committee
California Council for
International Trade

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COMMENTS IN OPPOSITION TO THE PROVISIONS OF S. 549 IMPOSING A GENERAL QUOTA ON IMPORTS OF NONRUBBER FOOTWEAR

FILED ON BEHALF OF
THE CAMARA NACIONAL DE LA INDUSTRIA DEL CALZADO
(The National Chamber Of Commerce Representing
The Mexican Nonrubber Footwear Industry)

I. INTRODUCTION

On behalf of our client, the Camara Nacional de la Industria del Calzado ("Camara del Calzado"), the National Chamber of Commerce representing the Mexican nonrubber footwear industry, we respectfully submit the following comments in opposition to the provisions of S. 549 (Textile and Apparel Trade Act of 1987) which seek to impose a global quota on all imports of nonrubber footwear into the United States. The legislation, as presently drafted, fails to take into account that any injury which the domestic industry has suffered, or is currently suffering, has been the result of imports from the five major nonrubber footwear exporting countries, and that by seeking to impose restraints on imports of nonrubber footwear from all sources, regardless of whether imports from such sources have been a course of injury to the domestic industry, this legislation is unnecessarily broad. Imposing import restraints on countries such as Mexico, which export minimal amounts of nonrubber footwear to the United States, would provide no significant benefit to the domestic nonrubber footwear industry, and would only serve to needlessly exacerbate the already existing tensions prevalent among trading nations today.

More fundamentally, however, we respectfully submit legislation such as this, seeking to protect the domestic industry from import competition, is completely unnecessary and contrary to the national economic interests of the United States. This legislation must be viewed from the historical perspective of the repeated efforts of the nonrubber footwear industry to obtain relief from import competition over the past decade. Such efforts have not helped smaller domestic manufacturers of nonrubber footwear, those most in need of some form of assistance, but instead have served only to provide windfall benefits to major domestic manufacturers, who are quite capable of successfully competing against imported nonrubber footwear. This proposed legislation would have the same effect, and for this reason is unnecessary, as it will no more provide relief to that segment of the domestic industry most in need of it than have prior efforts of the domestic industry to obtain relief.

S. 549

We respectfully suggest that the problems, if any, currently confronting the domestic nonrubber footwear industry can be resolved by the legislation drafted in a much narrower manner than S. 549, i.e., legislation which would differentiate between major exporting companies and countries such as Mexico, which have found small niches in the U.S. market left unfilled by U.S. manufacturers. Legislation carefully crafted to resolve the problems facing the domestic industry would also have the additional benefit of not exacerbating trade relations with other countries by restricting exports of nonrubber footwear to the U.S. from countries where such exports are important to the domestic industries, but insignificant in the U.S. market. To restrict such exports which pose no threat of harm to the domestic industry would needlessly give rise to trade tensions while not providing any noticable benefit to the U.S. industry. We strongly urge that any legislation enacted by Congress to provide relief to the United States nonrubber footwear industry from import competition be carefully crafted so as not to inadvertently restrain exports of nonrubber footwear from countries such as Mexico, exports which (1) have not been, and are not, the cause of any injury to the domestic industry, and (2) if restrained, would not provide any benefit to the domestic industry.

In fashioning any legislation limiting the importation of nonrubber footwear into the United States, we believe that the relief sought to be provided to the domestic industry should be implemented in a way which is least disruptive to international trade. With this objective in mind, we believe that limiting imports of nonrubber footwear from the top five exporting countries to either 1985 levels (with minimal growth -- perhaps one percent per year), or to 1986 levels (with no growth allowed), could accomplish this goal. In 1986, imports from these five countries (Taiwan, Korea, Italy, Brazil and Spain) accounted for approximately 90 percent (89.6 percent) of the total value of nonrubber footwear imported into the United States. See Tables 1 and 2. By limiting imports from these five countries, whose exports clearly have been the cause of any injury suffered by the domestic industry, imports from other countries could then be allowed to enter the United States unrestrained, until they increase to a certain designated level (*e.g.*, 5.0 percent of total U.S. imports and/or 2.5 percent of total U.S. consumption), at which point they too would become subject to restraints on growth. Further, legislation could be formulated in such a way so that as a country's exports account for a greater percentage of imports and/or U.S. consumption, the restraints on that country's exports would become more severe.

Alternatively, some type of sliding scale standard could be utilized to impose restraints on all imports of nonrubber footwear, with the degree of restraint being dependent on a country's share of total U.S. imports or consumption. The following table suggests one form that such legislation could take:

% of U.S. Imports	% of U.S. Consumption	Base Level	Permitted Growth
25+	10+	1985	1.0%
10-25	5-10	1986	1.0%
5-10	2.5-5.0	1986	5.0%
2.5-5	1.0-2.5	1986	10.0%
0.0-2.5	0.0-1.0	1986	unrestrained

Dependent upon either the percentage of the value of total U.S. imports or total U.S. consumption, a country's exports of nonrubber footwear to the United States would be allowed to increase a certain percentage a year over its imports in a specified base year (1986, except for countries whose exports presently account for over 25 percent of total imports or 10 percent of total consumption, for which 1985 would be used). The inherent equity and fairness of this approach is undeniable, as it allows those countries, such as Mexico, whose nonrubber footwear manufacturers have found themselves small niches in the United States market, and who have neither the capability nor desire to be a major force in the U.S. market, to sell unhindered therein, while those countries whose manufacturers have only a small market share now, but desire to expand their presence in the U.S. market, will find increasingly severe restraints imposed on their exports to the United States as they obtain a larger share of the market.

Finally, we suggest that if any legislation is ultimately enacted by Congress, it should take into consideration the overall trade in footwear and footwear-related products between a footwear exporting country and the United States. In the case of Mexico, where the value of exports from the United States to Mexico of footwear-related merchandise (hides and skins, leather footwear parts) has historically been around 250 percent greater than the value of nonrubber footwear imported into the United States, the restraint of trade clearly is not in the national economic interest.

II. THE MEXICAN NONRUBBER FOOTWEAR INDUSTRY

The Mexican nonrubber footwear industry consists of approximately 1,800 producers, mostly very small, producing largely for local consumption. Only a very small percentage (no more than two percent) produce for export. Mexico is not in any sense a major factor in the world footwear market, although it does export its product to not only the United States, but also to several European countries. The vast majority of Mexican nonrubber footwear manufactured for export consist of men's dress and casual shoes, western-style boots, and ladies' sandals, which sell in the middle to upper price ranges of the United States nonrubber footwear market.

Imports of nonrubber footwear from Mexico clearly have not been a cause of any injury to the U.S. nonrubber footwear industry. In 1986, imports of such merchandise from Mexico accounted for only 0.6 percent of total U.S. imports, and 0.4 percent of U.S. apparent consumption. See Tables 2 and 3. These figures have remained at these levels for the past three years (Tables 2 and 3), giving credence to the contention of Mexican exporters that they have no desire to expand their presence to become a major player in the U.S. market, but desire only to maintain the small niche they have found for themselves. While such imports are relatively insignificant to the U.S. industry, they are important to individual Mexican manufacturers, the Mexican industry, and the Mexican economy.

The Mexican economy, while recovering from the economic crisis of 1982, still remains fragile. The road to recovery has not been easy, as the economic realities of the situation and the desire of Mexico to live up to its international debt obligations have resulted in the Mexican Government adopting an austere economic program which has imposed many hardships on the Mexican people. Mexico's economic recovery in large part is dependent upon its ability to obtain foreign currency, which enables it to import those goods and services needed to keep the economy running, as well as to service its foreign debt obligations.

In 1986, Mexican exports of nonrubber footwear in the United States were valued slightly at $35.9 million, down from $38.1 million in 1984. See Table 1. Much of this money was then used by Mexican producers to purchase the necessary raw materials, and machinery and equipment, needed for their operations. These purchases were made mostly from U.S. businesses. In 1984, Mexican nonrubber footwear manufacturers imported hides and skins from U.S. suppliers valued at approximately $110 million for use in the manufacture of footwear sold both for domestic consumption and export. Further, over 12 percent of U.S. exports of semimanufactured leather footwear parts were to Mexican manufacturers in 1984. Thus, continued access to U.S. markets provide benefits not only to Mexican manufacturers, but also to their suppliers, which are most often U.S. businesses.

The continued ability of Mexican footwear manufacturers to sell in the U.S. market without being artificially hindered by import restraints clearly will not pose any threat to the U.S. industry. Indeed, approximately 70 percent of the Mexican footwear exported to the United States is shipped under private brand labels to U.S. retailers, many of whom are also significant buyers and sellers of U.S.-produced nonrubber footwear. These purchasers use the Mexican product to round out their product lines and to increase their overall profitability. Therefore, a significant amount of Mexican-produced nonrubber footwear imported into the United States does not even compete directly with U.S.-produced footwear, but serves segments of the U.S. market which U.S. producers have chosen not to serve.

It should also be noted that approximately 10 percent of Mexican footwear imported into the United States is imported under item 807.00 of the Tariff Schedules of the United States ("TSUS"). (Item 807.00 provides that merchandise imported into the United States which was assembled in a foreign country from U.S. fabricated components are subject to a rate of duty based upon the full value of the imported article, less the value of the U.S. fabricated components.) Such merchandise imported from Mexico into the United States, manufactured from U.S.-made components, is imported into Mexico in-bond and assembled in Mexican facilities (generally along the U.S.-Mexican border), and then returned to the United States. In fact, a number of U.S. domestic manufacturers own and operate such "807.00" facilities in Mexico to take advantage of the lower wage rate in Mexico. This also serves to employ Mexican workers along the border area.

The nonrubber footwear industry is highly labor intensive, giving Mexican manufacturers a comparative advantage over those in the United States. This is one of the reasons U.S. manufacturers find it attractive to invest in "807.00" operations along the Mexican border. Mexican footwear manufacturers also constitute a major source of employment in the non-border areas of Mexico in which they are located. Restricting imports of Mexican footwear into the United States will necessarily lead to a reduction of employment in the Mexican footwear industry both along the border and within Mexico. This will only add to the pool of unemployed Mexican workers, and ultimately, to the difficult immigration situation which exists between our two countries.

It is clear that the imposition of import restraints on non-rubber footwear from Mexico would not only impose hardships on Mexican nonrubber footwear manufacturers, but would also negatively impact on U.S. businesses which in 1984 sold well over $100 million worth of goods to Mexican nonrubber footwear manufacturers. In a purely economic sense, the net benefit -- and favorable trade balance -- from these transactions, i.e., the sale of Mexican nonrubber footwear to U.S. purchasers and the purchase of U.S. materials by Mexican manufacturers, is clearly in favor of the United States. U.S. businesses, in terms of dollars, clearly will lose more than Mexican manufacturers as a result of the disruption in trade which would most likely result if S. 549 is passed in its present form.

III. CONCLUSION

We respectfully submit that the provisions of S. 549 relating to the imposition of global quotas on imports of nonrubber footwear are currently drafted in a manner that is needlessly overbroad. The aim of this legislation, i.e., to provide protection from imports to the domestic nonrubber footwear industry, can be accomplished by legislation drafted to restrict imports from those countries -- Taiwan, Korea, Italy, Brazil and Spain -- whose exports have been the overwhelming cause of any injury, present or historic, which the domestic industry has suffered. Restraining imports from these five countries alone would account for almost ninety percent of total U.S. imports. The remaining ten percent of imports from all other countries, accounted for by new entrants into the U.S. market or by exporters who have found small niches therein, have not been, and are not, the cause of any injury to the domestic industry. To restrain these imports at their current levels would not appreciably benefit the domestic industry, but would raise trade tensions with countries who see their exports being denied access to the U.S. market.

Given the current tense atmosphere between nations today, it makes little sense to enact legislation which would further strain such relations for no apparent purpose. This is precisely what passage of S. 549 in its present form would do in the case of Mexico, and probably many of the other non-major exporters of nonrubber footwear to the United States. For these reasons, we respectfully urge that S. 549, to the extent that it relates to nonrubber footwear, not be enacted into law in its present form, and that if the Congress feels that it needs to legislate protection for the U.S. industry, that it do so by carefully crafting legislation which would restrain imports from those countries which have been the cause of any injury to the domestic nonrubber footwear industry.

Respectfully submitted,

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August 11, 1987

TABLE 1
Value of U.S. Imports of Nonrubber Footwear
1984 - 1986
($1,000)

				% Change	
	1986	1985	1984	1985-1986	1984-1986
Taiwan	$2,026,929	$1,684,166	$1,357,247	+20.4	+ 49.4
Korea	1,382,580	990,324	774,103	+39.6	+ 78.6
Italy	900,396	869,504	774,816	+ 3.6	+ 16.2
Brazil	811,476	866,030	853,519	- 6.3	- 4.9
Spain	408,927	416,318	365,560	- 1.8	+ 11.9
Hong Kong	102,264	87,177	70,094	+17.3	+ 45.9
France	97,223	118,982	95,609	-18.3	+ 1.7
PRC	45,477	34,606	22,053	+31.4	+106.2
Yugoslavia	41,873	34,310	27,124	+22.0	+ 54.4
Portugal	36,137	20,936	14,116	+72.6	+156.0
Mexico	35,882	35,773	38,124	+ 0.3	- 5.9
Thailand	33,465	18,752	16,831	+78.5	+ 98.8
Canada	32,334	34,648	33,471	- 6.7	- 3.4
U.K.	28,010	25,916	18,702	+ 8.1	+ 49.8
FRG	24,987	21,534	18,896	+16.0	+ 32.2
All Others	167,394	166,725	171,131	+ 0.4	- 2.2
Total U.S.	$6,175,354	$5,425,701	$4,651,396	+13.8	+ 32.8

Source: Nonrubber Footwear Quarterly Statistical Report, USITC Pub. 1964 (March 1987).

TABLE 2
Major Sources of U.S. Imports
1984 - 1986
($1,000)

	1986	1985	1984
Taiwan	$2,026,929 (32.8%)	$1,684,166 (31.0%)	$1,357,247 (29.9%)
Korea	1,382,580 (22.4%)	990,324 (18.3%)	774,103 (16.7%)
Italy	900,396 (14.6%)	869,504 (16.1%)	774,816 (16.7%)
Brazil	811,476 (13.2%)	866,030 (16.0%)	853,519 (18.4%)
Spain	408,927 (16.7%)	416,318 (7.7%)	365,560 (7.9%)
Total: Five Major Exporting Countries:	5,530,308 (89.6%)	4,826,342 (89.0%)	4,125,245 (88.7%)
Mexico	35,465 (0.6%)	18,752 (0.4%)	16,831 (0.4%)
Total U.S. Imports	6,175,354	5,425,701	4,651,396

Source: Nonrubber Footwear Quarterly Statistical Report, USITC Pub. 1964 (March 1987).

TABLE 3
Imports of Nonrubber Footwear: Share of U.S. Apparent Consumption 1984 - 1986
($1 million)

	1986	1985	1984
Taiwan	$2,026.9	$1,684.1	$1,357.2
	(20.9%)	(18.15%)	(15.10%)
Korea	1,382.6	990.3	774.1
	(14.2%)	(10.7%)	(8.6%)
Italy	900.4	869.5	774.8
	(9.3%)	(9.4%)	(8.6%)
Brazil	811.5	866.0	853.5
	(8.4%)	(9.3%)	(9.5%)
Spain	408.9	416.3	365.6
	(4.2%)	(4.5%)	(4.1%)
Total: Five Major Exporting Countries:			
	5,530.3	4,826.3	4,125.2
	(56.9%)	(52.0%)	(45.89%)
Mexico	35.5	18.8	16.8
	(0.4%)	(0.2%)	(0.2%)
Total U.S. Imports	6,175.4	5,425.7	4,651.4
	(63.5%)	(58.5%)	(51.7%)
U.S. Apparent Consumption	9,720.5	9,282.0	8,989.2

Source: *Nonrubber Footwear Quarterly Statistical Report*, USITC Pub. 1964 (March 1987).

Testimony on S. 549
The Textile and Apparel Trade Act
Of 1987

Of Leslie Alan Glick, Esq.
Partner, Duncan, Allen and Mitchell
Washington, D. C.
On Behalf of Cecil Saydah Company
Los Angeles, California

Mr. Chairman:

I am testifying today on behalf of Cecil Saydah Company of Los Angeles, California. Cecil Saydah Company is both an importer and convertor of towels and has been in business since 1945. Saydah is a domestic industry employing 300 workers with an annual payroll of approximately $5,000,000. At least 75% of the workers are involved in various converting, finishing and processing operations performed on blank towels. These are U.S. workers and are no different than textile workers employed in North Carolina or elsewhere. These workers perform printing, folding, sewing and cutting of towel blanks that are then sold as finished towels. Without the supply of towel blanks to print and convert, these workers would have no jobs. This, Mr. Chairman, is the reason for our being here today, to discuss how S. 549 will adversely impact these U.S. workers and to propose an amendment that will alleviate this situation.

Saydah buys its blank towels both domestically and from foreign sources. It buys all such blanks it can get from major U.S. textile producers such as Fieldcrest/Cannon and J.P. Stevens. The problem is that these companies cannot fulfill Saydah's needs. In fact, they are sold out of blanks until the end of 1987; thus, Saydah cannot buy these blanks domestically. Moreover, companies that produce these blanks in the U.S. also often utilize them themselves for printing and converting their own towels and thus control the supply available to smaller competitors. Moreover, some of the sizes and types of blanks needed are not even manufactured domestically. U.S. manufacturers of these towel blanks often prefer to devote their production facilities to more profitable items. Saydah is then faced with a choice, either to stop producing finished towels because of a lack of supply of blanks, thus eliminating over 250 U.S. jobs, or importing the towels blanks so it can continue to have a source of supply. Saydah has chosen to save these U.S. jobs by importing its blank towels from India, Taiwan, Korea, Portugal, China, and Mexico.

S. 549 would severely limit Saydah's present and future supply of blank towels. These towels are already in short supply and Saydah often has difficulty obtaining enough. This is due to control of these towels under the Multifiber Arrangement and various bi-lateral arrangements. The towels are largely classified under MFA category 363 and to a lesser extent, 369. The number of white towel blanks available for importation is limited. This is because such blanks are generally low value and exporting countries prefer to save their visa allocations for higher value products.

Mr. Chairman, this already difficult situation would be made much worse by the passage of S. 549. We therefore would like to propose an amendment that we believe would save U.S. jobs and not injure any U.S. producers or workers. In converting the imported blanks to finished towels, Saydah adds at least 25% to the F.O.B. imported value and sometimes as much as 100%. Our proposal, which we offer as an amendment to S. 549, would exempt from the quota provisions of the bill imported blank towels imported under MFA 363 or 369 where the domestic value added prior to sale to the first U.S. purchaser is at least 25% of the F.O.B. value. This would be accomplished by a certification process whereby the importer would submit to U.S. Customs an advance certification that the imported shipment was to be printed and otherwise processed in the United States with value added of at least 25% of the F.O.B. value of the imported towel blanks.

Importers would make records available to Customs to inspect and would be subject to fraud penalties for any miscertification. We believe this proposal would save U.S. jobs without any impact on U.S. producers. There are at least five other major converters, such as Saydah, that need to import towel blanks as a raw material, due to a shortage of domestic supply. These include companies in New York City; Dillon, South Carolina; Metuchen, New Jersey; Lake Zurich, Illinois; Hamilton, Ohio; and Monroe, Georgia. These convertors employ over 2000 U.S. workers whose jobs are dependent on imports of towel blanks and whose future will be preserved by the proposed amendment, which we hope you will consider in your mark-up session.

We wish to point out that in the House of Representatives, an amendment was added to the bill to exempt products made in U.S. insular possessions that are covered by Tariff Headnote 3a. These products can have up to 70% foreign content. Our amendment is fully compatible with the concept of the House amendment in that it exempts products with significant U.S. value added. Certainly workers in the continental United States should be treated no worse than those in insular possessions.

C/S/E

August 14, 1987

TEXTILE LEGISLATION SOCKS IT TO CONSUMERS

by Mary Alexander

EXECUTIVE SUMMARY

Protectionist textile and apparel legislation proposed in the 100th Congress could cost consumers up to $10.4 billion in higher prices each year. Consumers could ultimately pay as much as $223,000 extra annually for each textile and apparel job "saved," even though the vast majority of these jobs pay less than $15,000 a year. This legislation would bring the total annual cost of protection for these industries to an estimated $37 billion, or $617 for a family of four.

The legislation would actually destroy far more jobs than it would preserve. The retail industry alone could lose 52,440 jobs, over 5000 more than the 46,700 jobs the bill is estimated to protect. Other industries likely to suffer include importers, stevedores, port services, customs brokers, freight forwarders, warehouses, transportation, banks, and insurance companies. Under the terms of the General Agreement on Tariffs and Trade, other nations would be entitled to retaliate against an estimated $29 billion in U.S. exports if this legislation passes.

Already two of the most heavily-protected industries in the United States, textiles and apparel are doing well according to many common measures. Unemployment rates in the major textile states were lower than the national average in 1986 and declined at least as fast as the national average between 1985 and 1986. Textile profits were up 46 percent in 1986, and some investment advisers predict another 20 percent increase in 1987. Between 1985 and 1987, textile and apparel production grew faster than the national average for manufacturing industries. Proposed legislation adds insult to injury by commanding consumers and workers in other industries to subsidize corporations which are outperforming many segments of the economy.

INTRODUCTION

The 100th Congress is now considering new textile and apparel quota legislation. Senators Ernest Hollings (D-SC) and Strom Thurmond (R-SC) have introduced S. 549, and Representative Butler Derrick (D-SD) has introduced H.R. 1154 to provide additional protection to the textile, apparel and shoe industries.

The Textile and Apparel Trade Act of 1987 establishes global import quotas for over 130 categories of textiles and textile products. It limits annual textile and apparel import growth to one percent for the next ten years. The act also freezes U.S. non-rubber footwear imports to 1986 levels, allowing no growth. Textiles, textile products, and footwear duties may be reduced by ten percent as "compensation" to America's trading partners for the U.S. government's unilateral action against them, but even this small reduction is to be phased in over five years.

CONSUMERS WOULD LOSE THEIR SHIRTS

This legislation would practically take the shirt off consumers' backs. The Council of Economic Advisers estimates the restrictions imposed by the bill would raise wholesale textile and apparel costs by up to $37 billion over five years. Costs ultimately paid by consumers at the retail level would rise by an even larger amount. The International Business and Economic Research Corporation (IBERC) estimates textile and apparel legislation would increase domestic apparel prices between two and ten percent. IBERC projects that it would add an additional $10.4 billion annually to consumer costs at the retail level -- $8.1 billion on textiles and apparel and $2.3 billion on footwear. These figures are on top of the $27 billion consumers already pay each year to protect these three industries, according to the Institute for International Economics. If this legislation passes, the total annual cost of protection for these industries could top $37 billion, or $617 for a family of four.

Restrictions on imports of necessities such as clothing and shoes strike particularly hard at low-income groups. Protection for the textile and apparel industries already costs the poorest 20 percent of American households 3.6 percent of their income, compared to one percent for middle-income households. Since the poor spend a higher share of their income on clothing, additional protection would impose a similarly disproportionate burden on them.

With the quantity of textile imports severely restricted by quotas, foreign manufacturers will naturally increase their profit margins by shipping higher quality--but more expensive--items, denying American consumers the lower-priced products they wish to buy. The substitution of quality and expensive extras for quantity has a precedent in the voluntary automobile restraints with Japan. Between 1983 and 1985, prices of Japanese car imports grew by eight percent, in part due to quality upgrading. Japanese manufacturers shifted the mix of cars exported to the United States toward higher-priced vehicles and increased optional equipment installation charges. Like auto quotas, the proposed textile and apparel legislation creates a hidden, regressive tax which consumers should not be forced to pay.

SHRINKING AMERICAN JOBS

The proposed legislation would hinder, not help, American competitiveness. Thousands of American jobs will be jeopardized. Not only will jobs in retailing, transportation, and services be adversely affected, but reduced economic growth due to increased protection may mean that even some textile industry jobs "saved" could be short-lived.

Retail industry employment represents 18 percent of the U.S. labor force, nearly one out of five jobs. IBERC estimates that while less than 46,700 textile, apparel, and footwear jobs would be protected in 1987 by this legislation, over 52,440 jobs in retailing which depend on clothing imports would be destroyed.

Retailing jobs represent only one affected industry. Other import-related employment would also decline, including jobs created by importers themselves, stevedores, port services, customs brokers, freight forwarders, warehouses, inland transportation, banks, and insurance companies. For instance, the Port of Long Beach, California has estimated that 857,000 tons of apparel cargo valued at $7.5 billion were imported through west coast ports in 1986, directly or indirectly supporting over 100,000 jobs.

The cost to consumers of protecting 46,700 textile, apparel, and footwear jobs is truly staggering. Consumers could ultimately lose $223,000 annually for each job protected due to price increases and reduced economic growth. These jobs generally pay less than $15,000 annually!

RETALIATION THREATENS JOBS, TOO

A global unilateral trade action by the United States against its trading partners, such as passage of a protectionist textile bill, is a direct violation of the General Agreement on Tariffs and Trade (GATT). GATT was created after World War II to establish rules for world trade. The Multifiber Arrangement (MFA), an agreement under the GATT, allows unilateral restraints only if a government decides that a particular product from a particular country is causing "serious injury" to a domestic industry. GATT does not recognize as a proper declaration of serious injury a broader claim supported by little more than statements that imports have increased and jobs have been lost. Nor does the GATT allow for permanent measures, whereas the proposed legislation in essence provides for permanent protection with only a government study after ten years.

Under GATT rules, American trading partners are free to demand compensation comparable to the value of the additional unilateral restrictions imposed. If they don't receive compensation, they may retaliate against U.S. exports. The American Association of Exporters and Importers estimates that U.S. trading partners will be entitled to retaliate against nearly $29 billion in U.S. exports if the additional quotas are imposed. That figure exceeds 1986 American exports of $26.9 billion to Japan, the second-largest buyer of U.S. goods. In 1984, the most recent year for which International Trade Commission figures are available, more than 5.5 million American jobs were related to exports.

Although the proposed legislation provides for slightly reduced textile and apparel tariffs to mollify America's trading partners, the reduction is so small that other countries will still have grounds under the GATT to restrict U.S. exports. The textile bill provides for a ten percent reduction of textile and apparel tariffs, phased in over five years. Average apparel tariffs are over 20 percent. A ten percent reduction of a 20 percent U.S. tariff leaves 18 percent, still an extremely high tariff--especially when the reduction is phased in over five years! And with strict quantity restrictions still in effect, this tariff reduction means very little.

Retaliation by America's trading partners is a real possibility, especially with the unprecedented inclusion of the European Community (EC) and Canada in the new textile bill. The EC has stated that the volume of textile and clothing imports from the United States has increased by 45 percent in the past year. EC clothing imports from Asia have also increased. If the United States attempts to limit its own textile imports, causing large diversions of Asian products to Europe, "the Community would be obliged...to retaliate against U.S. products," according to EC External Affairs Commissioner Willy de Clercq. The EC has clearly stated it has a right to retaliate under the GATT, and it will almost certainly carry out the threat. Canada too is unlikely to sit idly by while the U.S. restricts Canadian textile exports.

Administration officials speculate that U.S. agricultural products, telecommunications, airplanes, supercomputers, and high technology exports would be likely targets for retaliation by the European Community. As Table 1 shows, Europe is a significant market for many of these items.

The most likely target, one where the United States is still a net exporter, is the agricultural sector. In 1983, China cut back its purchases of American grain by over $500 million in a dispute with the United States over some $50 million in textile trade.

TABLE 1: 1986 U.S. EXPORTS
($millions)

Commodity	World	European Community
Food and Live Animals	17.8	2.6
Beverages and Tobacco	2.9	1.1
Crude Materials, inedible	17.6	0.9
Mineral Fuels & Lubricants	8.2	4.0
Oils and Fats	1.0	0.1
Chemicals	23.0	6.8
Basic Manufactures	14.7	12.0
Machinery & Transport Equipment	99.2	34.4
Miscellaneous Manufactures	17.9	12.4
Miscellaneous Commodities	14.9	3.5
Office Machinery Parts	8.2	0.9
Aircraft	15.3	2.4

Source: U.S. Department of Commerce, Bureau of the Census.

Taiwan, the largest exporter of apparel following China, is also the third largest importer of American grains, particularly American corn. Corn exports to Taiwan were valued at $2.89 billion in fiscal year 1986. That corn is a "sitting duck" for retaliation.

THE INDUSTRY IS THRIVING

Many key indicators suggest that the textile and apparel industries are doing well.

According to U.S. government statistics and Wall Street analysts, the textile industry is quite healthy. The industry did go through a period of readjustment in the early 1980s, as did many U.S. industries which suffered from the effects of the 1982 recession. However, it is now out-performing the manufacturing sector as a whole. Unemployment is down in the major textile states, employment is growing, and industry profits are up.

As Table 2 shows, overall unemployment rates in states with the most textile workers were lower than the national average in 1986. With the exception of North Carolina, unemployment also fell faster than the national average between 1985 and 1986. Between 1984 and 1986, average personal income in the four largest textile states (Georgia, New York, North Carolina, and South Carolina) grew 28 percent faster than the national average.

Unemployment in the textile industry decreased from 9.9 percent in 1985 to 7.5 percent in 1986, a 27.8 percent decline. It fell further in the first half of 1987 to 4.9 percent. From the first quarter of 1986 to the first quarter of 1987, textile employment was up 2.9 percent, representing 20,000 new jobs.

In apparel, unemployment fell from 11.4 percent in 1985 to 10.7 percent in 1986, a 7.4 percent decline. Apparel unemployment also continued to fall in the first half of 1987, to 10.5 percent.

In fact, some apparel manufacturers even state they are having problems hiring workers. The president of Piedmont Industries in Greenville, South Carolina admits, "competing for manual labor is getting tougher and tougher in Greenville because of the low unemployment rate...Other industries have taken our [sewing machine] operators." An official from Her Majesty Industries, Inc. says diversification of industry in the Greenville area and the entrance of such companies as Michelin Tire Corporation and Union Carbide Corporation, which pay higher wages than apparel companies, are two reasons for the struggle. He added, "another reason, which may be imagined, is that I just don't think people want to sew anymore."

TABLE 2: UNEMPLOYMENT RATES IN MAJOR TEXTILE STATES

STATE	1985	1986
California	7.2%	6.7%
Georgia	6.5%	5.9%
New York	6.5%	6.3%
North Carolina	5.4%	5.3%
Pennsylvania	8.0%	6.8%
South Carolina	6.8%	6.2%
National Unemployment Rate	7.2%	7.0%

Source: Bureau of Labor Statistics.

Production in these industries is rising, a real indicator of economic health. According to the Federal Reserve Board, textile production grew by 20 percent between the first quarter of 1985 and the first quarter of 1987. Apparel production grew by six percent, exceeding the national manufacturing average growth rate of five percent.

The textile and apparel industries are leaders in capacity utilization. Capacity utilization in the textile industry was 92 percent in the first quarter of 1987, compared to 78 percent in the first quarter of 1985. Capacity utilization in the apparel industry was 90 percent in the first quarter of 1987, compared to 87 percent for the first quarter of 1985. Average capacity utilization in all U.S. manufacturing industries was 81 percent in the first quarter of 1987.

These improvements have shown up on the "bottom line." Profits in the textile industry rose 46 percent in 1986. Return on equity was 14.5 percent, compared to an average of 9.6 percent in all manufacturing. Jay J. Meltzer, partner at Goldman, Sachs, & Co. and director of J.P. Stevens and Co., advises investors to look for a period of large textile profits in 1987: "These favorable conditions have contributed to our still optimistic earnings estimates and the healthy stock market performance of the U.S. fiber, fabric, home furnishings, and apparel industries." Value Line, a financial analysis firm, says apparel business is improving steadily and will improve even more in 1987: "Business will be good enough so that the companies that are on the ball will make out nicely." Kurt Salmon Associates, another financial forecasting firm, predicts textile profits will be up 20 percent in 1987.

Yet in spite of these forecasts, the textile industry would have American consumers and workers in other industries pay to protect it even further.

A TRADITION OF PROTECTION

Federal protection for the textile and apparel industries has existed for more than 200 years, truly institutionalized protection. Through bilateral and multilateral agreements, unilateral government actions, exemptions from trade liberalizing measures, high tariffs, and tight quotas, both are among the most highly protected industries in the United States.

Although tariffs have been collected on textiles since the early days of this nation, the first modern request by the textile industry for "temporary" relief was made in the 1930s. By 1935 Japan was successfully selling significant amounts of textiles to the United States, despite an average 46 percent tariff on cotton goods and 60 percent tariff on wool and woolen goods. At the insistence of the American textile industry, a "voluntary" quota agreement was forced on the Japanese by the Roosevelt administration. After Japan's textile industry was rebuilt following World War II, "voluntary" cotton textile restrictions were again imposed in 1956 at the behest of American cotton textile producers who were paying higher than world cotton prices as a result of federal price supports for cotton growers.

Restraints on cotton textile exports from Japan invited Korea, Hong Kong and Taiwan to increase their textile exports to the United States. In 1962, the first multilateral agreement to "temporarily" control growth in cotton imports was adopted under the aegis of the GATT. Quotas restricted growth to an annual rate of five percent.

Not surprisingly, with quota restrictions on cotton, foreign manufacturers began switching to produce more wool and synthetic fabric garments. Quotas imposed on these garments in the early 1970s stimulated the growth of the linen, ramie, and silk garment industries. In 1974, the first MFA was instituted to regulate the growth of world trade in textiles and apparel made of cotton, wool and man-made fiber.

The MFA has become progressively more restrictive under its three renewals. The 1986 renewal among 53 trading partners is the most restrictive MFA ever negotiated. It now includes all textile and apparel products made from silk blends and vegetable fibers, including ramie and linen. Pure silk is the only fabric excluded.

Bilateral textile agreements negotiated over the years and renegotiated in 1986 under the MFA are even more restrictive. The United States maintains 39 separate bilateral textile agreements. In 1986, bilaterals negotiated with Japan, Hong Kong, Korea, and Taiwan cut textile import growth from those four countries by 90 percent and provided for an average of less than one percent growth. These four Asian countries account for 40 percent of all textile and apparel imports.

According to figures from the International Trade Commission, U.S. textile consumption grew by 3.19 percent in 1986, over three times as fast as imports would be allowed to grow under the proposed legislation. Last year's bilateral agreements have already cost consumers an estimated $6.7 billion because they kept imports from keeping pace with increased demand.

The United States has also negotiated other agreements with smaller suppliers, such as India and Malaysia, limiting textile and apparel imports to about six percent annual growth. Quotas have been imposed on over 200 textile and apparel products from other countries. Quotas currently control approximately 80 percent of textile and apparel imports. Finally, the United States requested 118 consultations with other countries in 1986 to limit individual textile and apparel product imports.

Textile and apparel articles are also specifically exempted in trade liberalization agreements. The Caribbean Basin Initiative and the Generalized System of Preferences, two U.S. trade enhancement programs which provide developing countries duty-free treatment to encourage economic growth, exclude textile and apparel products.

The United States still maintains trade-weighted average duties of 18.6 percent on textiles and apparel. These are some of the highest tariffs in the United States, more than five times higher than the trade-weighted average 3.6 percent U.S. tariff on all other imported products. In 1986, 30 percent of the $13 billion in import duties collected by the federal government was assessed against textile and apparel imports.

CONCLUSION

Protectionist textile and apparel legislation could cost consumers an estimated $10.4 billion annually, destroy more than 52,440 jobs in the retail industry alone while "saving" 5,700 fewer low-paying textile jobs, and expose some of America's most successful and competitive industries to a possible $29 billion loss in foreign sales due to retaliation sanctioned under existing international agreements.

Contrary to common perceptions, the textile and apparel industries are doing well. In 1986, unemployment rates in major textile states were lower than the national average of seven percent. Profits in the textile industry were up 46 percent in 1986, and investment advisers predict additional increases as high as 20 percent in 1987. The fact that the legislation would raise prices, throw people out of work, and jeopardize exports to protect industries that are already outperforming the manufacturing sector as a whole merely adds insult to injury.

The textile and apparel industries must continue to adjust to meet consumers' changing needs. The Textile and Apparel Trade Act of 1987 sets into concrete the current mix of clothing types, precluding importers from satisfying future changes in consumer demands and lessening competitive pressure on domestic firms to do so. How can clothing merchants react to changing consumer desires if this legislation freezes the present consumption patterns of buyers? Like the dinosaurs that could not adapt to a new environment, those textile firms which seek protection seem oblivious to the real source of their problems. The best protection for people who are faced with the task of adjusting to new conditions is a thriving, competitive economy which vigorously produces new opportunities.

STATEMENT OF

FOOTWEAR RETAILERS OF AMERICA

This statement is submitted on behalf of the Footwear Retailers of America ("FRA") in opposition to S. 549, the Textile and Apparel Trade Act of 1987. FRA is an association of chain shoe stores whose members retail about half of all the footwear sold annually in the United States and provide 150,000 jobs. A list of FRA members is attached.

S. 549 is highly protectionist and unwarranted legislation. It would place a permanent global quota on all non-rubber footwear imports, freezing imports at 1986 levels. The bill would strangle trade by establishing 30 permanent categories. It would provide only negligible, and clearly inadequate compensation authority, and would prohibit the President from making any reductions in footwear tariffs in the Uruguay Round.

FRA urges Committee members to oppose S. 549 on the grounds that it will: 1) create a dramatic increase in consumer prices and threaten U.S. jobs; 2) not make the U.S. footwear manufacturing industry competitive; 3) reduce the ability of retailers to meet changes in consumer demand; 4) violate U.S. obligations under the GATT, giving rise to compensation claims and retaliation; and 5) undermine our efforts to achieve greater market access abroad and our chances for progress in the New Round.

FRA believes that S. 549 is at cross-purposes with the provisions of S. 1420 recently passed by the Senate, in particular the amendments to Section 201, which are intended to promote the competitiveness of U.S. industry. The U.S. footwear manufacturing industry has restructured and is highly competitive in categories such as medium priced, branded footwear. Domestic shoe producers will never become competitive in low price, handmade, fashion and athletic footwear, which together account for a significant percentage of U.S. footwear imports and most of the growth in imports. Over half of the imports are imported by domestic producers themselves. The footwear quotas imposed under this bill will do nothing to change this situation. Thus, the footwer quotas imposed under the bill will only succeed in raising prices, limiting consumer choice, provoking retaliation and threatening U.S. jobs.

I. S. 549 WILL CAUSE ENORMOUS INCREASES IN CONSUMER PRICES

S. 549 would impose enormous costs on American footwear consumers. According to a study by International Business and Economic Research Corporation (IBERC) released in March of this year, in the first year alone the bill would force a 9 percent increase in the price of imported footwear, permitting domestic producers to increase their prices by 10 percent (see summary attached). These price increases translate into a financial burden on American footwear consumers of over $2 billion at retail in the first year of the bill alone.

These price increases will fall hardest on low-income consumers. In addition, these consumers can expect to see less and less lower-priced footwear available for purchase because foreign suppliers will ship higher value footwear to the U.S. in order to maximize income over a smaller volume of shipments. Almost all low-priced footwear that is currently imported cannot be produced by U.S. manufacturers at even remotely competitive prices. Consumers will be forced to purchase high-priced domestic substitutes, or most probably to forego the purchase altogether. Moreover, the product upgrading that is certain to occur under S. 549 will put more imported footwear in direct competition with the higher priced domestically-produced footwear.

The hidden costs of S. 549 are not confined to price increases. IBERC estimates the bill will cause the loss of 22,100 jobs at shoe stores and in the shoe department of department stores. In fact, IBERC found that 6,500 more footwear-related jobs would be lost than would be protected in the manufacturing sector. S. 549 would tax consumers the equivalent of $146,500 for each manfacturing job it would protect.

II. THE BILL WILL NOT MAKE THE DOMESTIC FOOTWEAR MANUFACTURING INDUSTRY MORE COMPETITIVE: IMPORTS HAVE GROWN TO MEET CONSUMER DEMAND AND WILL NOT BE REPLACED BY DOMESTIC PRODUCTION

Total consumption of footwear grew by over 400 million pairs from 1975 to 1986. U.S. per capita footwear consumption in 1986 reached the unprecedented levels of 4.8 pair for non-rubber and 5.6 pair for total footwear. Per capita consumption prior to 1984 for non-rubber footwear had hovered between 3 and 4 pair for twenty-five years. Imports created this boom in consumption. The introduction of wide style ranges of imported athletic footwear and low-valued fashion footwear has fueled growth in a previously static marketplace. These growth segments are limited to imports. Due to U.S. wage scales and overhead costs, the U.S. industry cannot and never will produce these products at the requisite price points. Restraining imports within these products groups to 1986 levels thus restricts U.S. consumer choice without increasing U.S. production or creating more U.S. jobs.

Low-valued imports and athletic footwear imports are labor intensive, hand-made products manufactured in a wide range of fashion-oriented styles. The limited U.S. production of lower-valued footwear, on the other hand, is largely not competitive with imports. It is machine-made, injection molded footwear extremely limited in style and product-type. Moreover, U.S. production of athletic footwear does not and has never approached the volume necessary to satisfy market demand. For example, U.S. non-rubber athletic footwear production in 1986 equalled a mere 3 percent of total U.S. non-rubber athletic footwear consumption. Thus, imports of these two product groups complement rather than displace U.S. production and restraining these import-specialty groups will not result in significantly increased U.S. production. The role these two import-specialty groups played in increasing U.S. consumption is readily demonstrated by a per capita analysis of the U.S. marketplace.1/ (See Table 1).

Between 1981 and 1986 per capita consumption increased from 3.2 pair to 4.8 pair. During the same time period per capita consumption of the low priced imports (those valued at $5.00/per pair or less) increased from 0.7 pair to 1.7 pair, while athletic import per capita consumption increased from 0.3 pair to 1.0 pair. Thus, these two import groups accounted for all of the pair per capita increase, and all of the growth in consumption.

Restricting these import specialty groups would thus simply halt the growth in U.S. consumption without increasing U.S. production.

III. QUOTAS WOULD RESTRICT RETAILERS' ABILITY TO RESPOND TO CONSUMER DEMAND

The bill would restrict not only the total volume of imports but would also arbitrarily freeze the product mix available to the American consumer according to current demand patterns. A static quota category system with 30 categories based on gender, upper composition, style and price point fails to allow for changes in consumer preference. Such inflexibility in the fashion-driven, constantly changing U.S. footwear business would severely restrain the retailer's ability to respond to consumer demand. For example, in 1979 U.S. women were demanding "Candies" leather high-heeled slides and women's leather footwear imports from Italy were the response to this demand, growing by 50 percent in 1979 over 1978 levels and then dropping by 53 percent in 1980 when the fashion changed. Since 1983, fashion and lifestyle changes have shifted demand to athletic-styled footwear. Today instead of "Candies", high-topped Reeboks are the height of fashion.

Recent trends in athletic footwear clearly demonstrate the shifting pattern of demand. For example, between 1983 and 1986 imports of athletic footwear grew by 142.8 million pair and the product group's share of total imports increase from 15.1 percent to 24.5 percent. (See Table 2).

1/ Per the ITC Report on the 1985 201 Investigation (No. TA-201-55): "Since footwear consumption is largely dependent upon population size, raw consumption data can be normalized by looking at per capita consumption". At A-19.

Arbitrarily imposing the product mix of one year on subsequent years' imports clearly spells disaster for consumers. For example, if 1986 imports of athletic footwear had been restricted to 1983's category shares, the American public would have experienced a shortfall of 88.5 million pair of non-rubber athletic shoes. Moreover, the U.S. footwear manufacturing industry definitely would not have been able to cover the shortfall because it could not produce competitively at the price points which created consumer demand.

The bill also will create uncertainty for retailers and importers because it makes no provision with respect to the administration of the footwear quotas. The bill merely gives the Secretary of Commerce the authority to promulgate regulations necessary to "fair and efficient administration" of the quotas. Importers and retailers have no assurance as to how this authority would be implemented. Critical questions as to the method and timing of quota allocation are left unanswered.

IV. S. 549 WILL VIOLATE U.S. OBLIGATIONS UNDER THE GATT AND PROVOKE COMPENSATION CLAIMS AND RETALIATION

The permanent, unilateral import freeze imposed under the bill violates the United States' obligations under Articles XI, XIII and XIX of the GATT giving rise to compensation claims and the threat of foreign retaliation. Article XI of the GATT prohibits the unilateral imposition of guantitative restrictions unless specifically authorized under a GATT rule. Article XIII further provides that if quotas are imposed they must be implemented on a non-discriminatory basis, based on a previous representative period and allow for some growth. Article XIX of the GATT authorizes the imposition of import restrictions in order to respond to increased imports which cause or threaten to cause serious injury to a domestic industry producing a like product. Article XIX specifies, however, that the protective measures taken must be only to the extent and for such time as is necessary to remedy the injury. Furthermore, the contracting party imposing the escape clause action is required to compensate affected contracting parties for trade losses suffered. If no agreement on compensation is reached within 90 days of the date the measures are implemented, the affected contracting parties have the right to retaliate.

The global import quotas on footwear imports under S. 549 cannot be justified as an import safeguard measure under Article XIX because they are permanent rather than temporary, are based on a mere declaration of injury and prohibit any growth in imports above 1986 levels. The bill also provides inadequate tariff negotiating authority to meet the compensation requirements under Article XIX.

The bill does not conform to the requirements of Articles XIX that relief be temporary and only at the level necessary to remedy the injury. Rather than imposing temporary relief, the bill establishes permanent quotas on footwear imports which will only be reviewed at the end of 10 years, with no requirement that they be modified or terminated in response to changes or adjustments in the domestic industry. Moreover, the fact that the bill freezes footwear imports at 1986 levels and allows for no growth is also inconsistent with Article XIII.

Article XIX contemplates a finding of serious injury based on an actual investigation and fact finding with respect to specific products, not a mere declaration that such injury exists. Under U.S. law an investigation, findings and Presidential review are required prior to the imposition of escape clause relief. The across-the-board declaration of injury in the bill makes a mockery of the escape clause provisions and avoids the requirements of U.S. law. It establishes a precedent under which any contracting party would be free to impose trade restrictions based on nothing more than a simple statement by a government that a domestic industry has been injured as a result of increasing imports.

Finally, the compensation authority provided to the President under the bill is far from adequate to meet Article XIX compensation claims from footwear exporters. The bill limits the President's authority to reduce tariffs on non-rubber to no less than 90 percent of the existing MFN *ad* valorem rate and requires that these reductions be phased in over 5 years. This level of compensation is far from adequate to meet compensation claims from affected suppliers who would be likely to exercise their right to retaliate. For example, women's leather footwear is now subject to a 10 percent ad valorem rate. The bill, thus, allows for a total reduction of only one percentage point implemented over a 5 year period at a reduction of a mere 0.002 percentage point per year. This translates to a tariff savings of just $0.01 per year on a pair of $5.00 (F.O.B. value) shoes. Under Article XIX having found compensation to be inadequate, footwear exporters would be entitled to respond to the footwear quotas by placing equivalent restrictions on $6 billion in U.S. exports.

V. S. 549 WILL UNDERMINE CHANCES FOR PROGRESS IN THE URUGUAY ROUND

In addition to violating the GATT and encouraging retaliation, S. 549 will seriously undermine our chances for achieving greater market access and increased international discipline in the areas of intellectual property, services and investment in the Uruguay Round. Imposition of GATT-inconsistent unilateral footwear import restrictions under the bill would violate the United States' commitment to refrain from implementing new import restrictions and to liberalize existing restrictions under the Standstill and Rollback provisions of the Punta del Este Ministerial Declaration. This action by the United States would lead our trading partners to question the seriousness of the United States' commitment to the New Round.

The second way in which the bill would undermine the chances for progress in the Uruguay Round is that it prohibits the President from making any tariff reductions in non-rubber footwear tariffs in the New Round or in any other bilateral or multilateral negotiation outside of an Article XIX compensation negotiation. Tariffs on non-rubber footwear imports are one area in which U.S. tariffs remain relatively high. Developing countries will seek reductions in non-rubber footwear tariffs in the Uruguay Round. Therefore, in prohibiting any tariff cuts on non-rubber footwear, the bill removes an essential area of leverage that could be used by the President to gain greater access to developing country markets and to achieve progress in investment, services and intellectual property issues. Certainly, refusal to bargain in footwear would seriously weaken the United States position.

VI. CONCLUSION

For the foregoing reasons, FRA urges committee members to oppose S. 549 and to instead continue their efforts to solve our trade problems by supporting responsible, generic trade legislation.

TABLE 1

PER CAPITA1/ APPARENT DOMESTIC CONSUMPTION OF NON-RUBBER FOOTWEAR: TOTAL AND FOR SELECTED PRODUCT GROUPS (Volumes in million pr, per capita in pr)

	Apparent Domestic Consumption2/		Imports Under $5.00/pr3/		Athletic Imports	
YEAR	VOLUME	PER CAPITA1/	VOLUME	PER CAPITA1/	VOLUME	PER CAPITA1/
1981	736.2	3.2	159.3	0.7	57.3	0.3
1982	829.7	3.6	209.9	0.9	87.0	0.4
1983	913.4	3.9	267.0	1.1	88.0	0.4
1984	1020.0	4.3	318.2	1.4	121.6	0.5
1985	1096.8	4.6	373.4	1.6	175.0	0.7
1986	1162.2	4.8	414.9	1.7	230.8	1.0

1/ Based on resident U.S. population at July 1 of each year.
2/ U.S. production minus exports plus imports.
3/ Except athletic.
SOURCE: Official data of the U.S. Department of Commerce.

Table 2

U.S. Imports of Athletic Footwear by Price Point and Upper

	1983		1984		1985		1986	
Categories	Volume (000 PR)	Import Share (%)	Volume (000 PR)	Import Share (%)	Volume (000 PR)	Import Share (%)	Volume (000 PR)	Impo Shar (%)
Under $2.50/pair								
Leather	1,727	0.3	1,172	0.3	2,704	0.3	3,010	0.3
Plastic	823	0.1	1,751	0.2	1,789	0.2	2,596	0.3
Over $2.50/pair								
Leather	77,485	13.3	109,040	15.0	152,214	18.1	174,136	18.5
Plastic	8,001	1.4	8,580	1.2	18,278	2.2	51,052	5.4
TOTAL	88,036	15.1	121,543	16.7	174,985	20.8	230,794	24.5

Source: Official data of U.S. Department of Commerce

FRA member companies operate, under the following names, some 20,000 retail stores and departments nationwide, accounting for about half the nation's shoe sales annually:

- BATA SHOE CO., INC., USA

- BUTLER'S SHOE CORPORATION
  - Butler's
  - Allen's
  - C.H. Baker Shoes
  - Mailing Shoe Stores
  - Marilyn's
  - Shoe Kicks
  - Hot Feet
  - Burton Shoe Stores
  - Sole Hole
  - National Shoes
  - A.S. Beck
  - Delton's
  - Grandstand
  - Joeffrey Shoes
  - Mary Jane Stores

- C & J CLARK AMERICA, INC.
  - Hanover Shoe
  - Big Sky

- EDISON BROTHERS STORES, INC.
  - Chandler's
  - Baker's
  - Leed's
  - Burt's
  - The Wild Pair
  - Gussini

- ENDICOTT JOHNSON CORP.
  - Endicott Johnson
  - Endicott
  - Father & Son
  - Liberty Shoes
  - Saveway Shoes
  - Nobil

- FISHER CAMUTO CORP.
  - 9 West

- J. BAKER, INC
  - *Ames
  - *Fisher's Big Wheel
  - Parade of Shoes

- J.C. PENNEY CO., INC.

- KINNEY SHOE CORP.
  - Kinney
  - Foot Locker
  - Lady Foot Locker
  - Frugal Frank's
  - Fredelle
  - Stylco
  - Athletic Shoe Factroy

- KOBACKER STORES, INC.
  - Picway
  - Shoe Works
  - Pix of America

- MELDISCO
  - *K mart

- MELVILLE CORPORATION
  - Meldisco
  - Thom McAn
  - Open Country

- MONTGOMERY WARD & COMPANY

- MORSE SHOE, INC.
  - Fayva
  - Upstage
  - Morse
  - *Bradlees
  - *Richway
  - *ShopKo Stores
  - *Murphy's Mart
  - *Hills

- GENESCO, INC.
  - Flagg Brothers
  - Hardy
  - Jarmans
  - Foot Scene
  - Johnston & Murphy
  - Factory to You
  - Cover Girl
  - Innes

- PIC 'N PAY STORES, INC.
  - Pic 'n Pay Stores
  - Barett Shoes

- J.S. RAUB SHOE CORP.
  - J.S. Raub Shoe Stores

- SEARS ROEBUCK & COMPANY

- SHOE CITY, INC.
  - Shoe City

- SHOE-TOWN, INC.
  - Shoe-Town

- SHONAC CORPORATION
  - The Footwear House
  - Shonac Value City
  - Bart's

- SPENCER COMPANIES, INC.
  - *Jamesway
  - *Rink's

- STANDARD SHOE COMPANY
  - Standard Shoe
  - Shoe Rax

- THOM McAN SHOE COMPANY
  - Thom McAn

- TRADEHOME SHOE STORES, I
  - Tradehome Shoe

- VOLUME SHOE CORPORATION
  - Pay-Less Shoe Source
  - Volume Shoe Source

- WAL-MART SHOE CORPORATIO
  - Wal-Mart Stores

- ZAYRE CORPORATION

*Leased shoe departments

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July 29, 1987

Testimony of
the INTERNATIONAL FOOTWEAR ASSOCIATION
before the
COMMITTEE ON FINANCE
UNITED STATES SENATE
on
S. 549, THE TEXTILE AND APPAREL TRADE ACT OF 1987

The International Footwear Association (IFA) appreciates this opportunity to express its views about quotas on imports of footwear into the United States as proposed in S. 549.

IFA is an association of U.S. companies which import completed footwear. Its forty-six corporate members account for perhaps twenty percent of all footwear imports. We oppose quotas. We urge the Committee to reject their imposition on U.S. consumers, the U.S. economy, our trading partners, and those domestic manufacturers who export and those who rely on imports to fill in their lines.

There is nothing new to say about quotas. Quotas invariably increase prices. They have the most severe impact on low-priced footwear, worn by the least affluent Americans. Quotas distort trade and market patterns, at higher price levels and with more sophisticated products, resulting most often in increased competition with those whom the restraints are intended to assist. Quotas take on a cost of their own, and that cost must be added to the economic and social burden. To the extent the market will bear it, all economic costs are marked-up for profit by each participant. No one is in the shoe business to make or sell shoes -- they are in the business to make money; if production is restrained by quotas, prices must rise, due either to increased demand coupled with diminished supply or because the limited production is devoted to footwear with greater value-added commanding higher prices. Foreign producers must take these steps just to stay even. A careful analysis of production in Korea and Taiwan before and after the most recent quotas were imposed will demonstrate this point.

It is arguable whether or not quotas save jobs. To the extent that they do, the costs are enormous. Every government and private study indicates that it would be far cheaper to pay money directly to workers displaced by foreign competition than to impose the economic and social burdens of quotas on society at large.

It is clear that quotas will not cause production to shift to this country to any appreciable degree if domestic industry chooses to increase profits without improving competitiveness. This has been the inevitable result of most such actions. The recent motorcycle case is the only exception in recent memory. Domestic manufacturers have adjusted to some degree to import competition and continue efforts to make themselves world-class competitors. These firms learned how to compete with imports and learned how to enhance their competitive position by using imported footwear and parts to complement their domestic production. Quotas will retard these developments.

Quotas do not solve the complex issues of trade. We have numerous laws to deal with unfair trade, and our Association believes in fair and open trade. Quotas do not benefit workers. Quotas hurt consumers, hurt the economies of our trading partners, hurt relations between us and other countries, and distort markers here and abroad.

What will help the footwear industry and workers in the U.S. is research and development, investment, entrepreneurial risk-taking and a properly functioning Adjustment Assistance Act. If Congress proposes legislation to help in these ways, IFA would give enthusiastic support.

Quotas did not help the footwear industry before, and will not now. Open, technologically advanced, creative and innovative competition will help everyone -- consumers and industry alike.

If quotas don't work; if they hurt more that they help; if there is real opportunity to compete in the world's largest footwear market at incredibly high per-capita consumption and incredibly low prices; why turn to quotas?

History teaches us that quotas are not the answer. If government is to interfere in the market it should do so only to enhance the competitiveness of American firms and the adjustment of industry, workers and communities, not to eliminate foreign competition.

Once again, the International Footwear Association appreciates this opportunity to testify on this very important matter.

STATEMENT OF

NECKWEAR ASSOCIATION OF AMERICA, INC.

to the
Committee on Finance
United States Senate

On S.549

July 30, 1987

The Neckwear Association of America is the trade association for domestic manufacturers of neckwear. Our businesses are concentrated in New York, which accounts for more than one-third of industry employment, and in Louisiana, New Jersey, Missouri, Pennsylvania, Texas, Michigan, Massachusetts, North Carolina and California.

The Neckwear Association strongly supports S.549 with one important caveat: The bill needs to be amended to include coverage of 100 percent silk neckties; it is a major omission in S.549. Silk neckties were considered a textile product for quota purposes under the Textile and Apparel Trade Enforcement Act of 1986, and we understand that the omission of these items from S.549 was an oversight. In this regard, we are recommending legislative language to deal with this oversight, which is attached to this statement.

One change in the bill which we particularly endorse is the ability to control imports from Italy. Last year's bill excluded the Economic Community from quota coverage. Since so many of U.S. necktie imports are of Italian origin, the earlier version of this legislation would not have adequately dealt with our import problem.

The neckwear industry believes that passage of this legislation is vital as we have virtually no protection under the current system of textile restraints, the Multifiber Arrangement. Although the neckwear industry is an integral member of the textile/apparel sector and shares many of its characteristics, neckwear is distinguished from most of the textile and apparel sector by its lack of protection from imports. While the textile/apparel industry as a whole has some protection, as imperfect as it may be, under the Multifiber Arrangement, the neckwear industry has very little protection from imports. Only some of our products are of cotton, wool, or man-made fiber, the products covered by the MFA. More than half of the neckties imported are of materials not covered by the MFA, such as 100% silk. It is only when other constituent fibers of a necktie (e.g., the lining) outweigh the silk content that "silk" neckties can be covered under the MFA. Much of the remaining imports of wool or man-made fiber are from countries with which the United States does not have bilateral agreements, generally developed countries such as Italy, although imports from underdeveloped countries have been growing at an alarming rate. Further, while the average tariff rate on clothing imports is around 20 percent, the average duty on necktie imports is just 8 percent.

This has left the necktie industry particularly vulnerable to imports. Producing neckties requires much the same skills and material requirements as does the production of other sewn products. Production start-up costs are minimal. Any country with an established apparel industry can quickly become a producer and exporter of neckties.

Conditions in our industry are rapidly deteriorating as imports have increased at an alarming rate over the past several years. In 1980, imports had about 4 percent of our market. By 1985, imported neckties had captured almost 21 percent of our market. The tremendous growth in imports has caused a substantial loss in market share held by U.S. producers.

Silk necktie imports present a particularly difficult problem. One-hundred percent silk neckties are the most significant and financially viable sector of the neckwear industry. To deny this segment coverage under the textile quota bill, while covering other segments of the industry, would invite product switching, resulting in further inroads by imports in this important sector. Moreover, quota ceilings on other apparel items invariably lead to a transfer in production to areas that are not covered by quota.

The import growth in silk neckties has risen phenomenally over the past several years. From 1982 to 1986, silk necktie imports grew by 285 percent. This growth rate far surpassed the growth rates of wool and man-made fiber neckwear imports. And in terms of all neckwear imports, silk necktie imports constituted almost 60 percent of all necktie imports in 1986.

Imports are taking over our markets causing dislocations within the industry for both firms and workers. Our experience with the MFA has not given us much confidence of its ability to control imports. Thus we urge passage of S.549 with an amendment to include 100 percent silk neckties under the provisions of the bill.

Silk Neckwear Amendment to S.549

Section 8(3) is amended by adding the following:

"(D) a category consisting of the products not covered by a category described in subparagraph A and classified under TSUSA items 373.0530, 373.2030, and 373.2230."

National Association of Wheat Growers
415 Second Street, N.E., Suite 300, Washington, D.C. 20002, (202) 547-7800

July 30, 1987

The Honorable Lloyd Bentsen, Chairman
Senate Committee on Finance
Washington, D.C. 20510

Dear Mr. Chairman:

I appreciate the chance to comment on the Committee's consideration of S. 549, to put even more restrictions on textile imports. We do not believe the proposed restrictions are consistent with Congress's clear desire to pass legislation that will open markets, expand exports and trade, and put pressure on other countries to trade fairly. We fear S. 549 would do just the opposite.

Instead of opening markets, it would increase the already substantial restrictions on textile imports under the Multifiber Arrangement (MFA), revised just last year. The legislation would restrict imports even more than the MFA itself.

Instead of expanding U.S. exports, the proposed quotas would run a grave risk of hurting U.S. sales. The European Community has already threatened retaliation, and other suppliers are likely to react in a similar manner. U.S. agriculture, still a net exporting sector, is always especially vulnerable to retaliation. In 1983, for example, in a dispute with the People's Republic of China over some $50 million in textile trade, the U.S. lost over half a billion dollars in wheat exports. The 20 top suppliers of textiles to the U.S. market accounted in 1985/86 for some 70% of U.S. wheat exports, over 17 million tonnes; the top five suppliers alone accounted for 26%, or 6.5 million tonnes.

Finally, the new textile bill would not encourage a fairer world trading system. The bill violates the MFA, existing bilateral agreements, and Article XIX of the General Agreement on Tariffs and Trade (GATT). How can the United States hope to restore confidence in GATT, and make reforms in sectors like services and agriculture, if we enact legislation that violates our sovereign commitments?

We are not arguing for an end to all restrictions on imports of textiles. We do not believe, however, that there is any justification for making the system still more restrictive. Please oppose S. 549 both in the Committee and on the floor.

Sincerely,

Jim Miller
President

"WHEAT DOLLARS ARE IMPORTANT TO THE NATIONAL ECONOMY AND YOUR BUSINESS"

NMRI National Mass Retailing Institute

Richard I. Hersh
President

Headquarters: 570 Seventh Avenue, New York, N.Y. 10018 (212) 354-6600

Government Relations Office: 1901 Pennsylvania Avenue, N.W., Washington, D.C. 20006 (202) 861-0774

August 4, 1987

Dear Senator:

The National Mass Retailing Institute (NMRI) -- a trade association that represents over 140 major discount retail chains located in all 50 states which account for a majority of the $130 billion dollar discount retail industry -- urges you to oppose S. 549, the Textile and Apparel Trade Act of 1987. It is our understanding that this bill could be scheduled for a floor vote in the near future. NMRI is a member of the Retail Industry Trade Action Coalition (RITAC), which is also opposed to S. 549.

S. 549 would seriously effect the U.S. economy and adversely impact American consumers (particularly the poor). It would provide unnecessary protection to the U.S. textile and apparel industry (already the most protected industry in the United States), provide the wrong policy direction for a fragile world trading system, and cause significant harm to the health of the U.S. retail industry.

Specifically, the trade-restrictive approach embodied in S. 549 will restrict retailers' ability to provide their customers with the wide variety of quality textile and apparel products at competitive prices they demand. This will result in consumers paying $10 billion dollars per year in additional clothing costs.

Employment in the retail industry would suffer as well. The bill would force 52,000 retailers out of work in order to save 47,000 textile and apparel jobs at a net cost of $223,000 for each job saved. It should be noted that the textile and apparel industry, enjoying one of its most financially prosperous years in history, created more than 27,000 new jobs (May 1986 - May 1987).

As as member of the Senate, you have spent a great deal of time this year developing a comprehensive trade policy with a goal of promoting open and fair world trade. We urge you to continue to work for open and fair world trade and to oppose S. 549.

Sincerely,

Robert J. Verdisco

Robert J. Verdisco,
Vice President for
Government Relations

cc: All U.S. Senators

PREPARED
STATEMENT
OF
THE RETAIL INDUSTRY TRADE
ACTION COALITION (RITAC)

Mr. Chairman and Members of the Committee,

The Retail Industry Trade Action Coalition (RITAC) is composed of 50 large and small retail companies and 6 retail associations, whose member companies employ over one million Americans, with stores in all 50 states. We oppose enactment of S. 549, the Textile and Apparel Trade Act of 1987.

Our concerns with this bill are fourfold. First, retailing is a vital and highly competitive sector of the economy whose survival depends upon meeting our customers' demands and needs. By artificially restricting access to imports, the bill would jeopardize our ability to serve our customers. Second, in addition to hurting retailers and our customers, enactment of this draconian legislation would invite retaliation, violate our international obligations under the Multifiber Arrangement and the bilateral textile agreements negotiated pursuant to it, and undermine our nation's efforts to secure a more open trading system. Third, given the vibrant health of the textile and apparel industry and the unparalleled level of protection it already enjoys, further relief from legitimate import competition is unnecessary. Finally, enactment of the legislation would undermine the Committee's commendable efforts to produce positive trade legislation and the Administration's ongoing efforts to expand world trade through the Uruguay Round of GATT multilateral trade negotiations. In short, enactment of this legislation would be disastrous for the economy and the world trading system. RITAC therefore urges you to reject the bill.

Before addressing these points in detail, let us emphasize that we are not urging the dismantling of all existing protection for the domestic textile and apparel industry. Far from it. Instead, we are seeking a balance between the needs of the industry and the needs of our customers. As you know, the domestic industry is the only sector which enjoys the protection of an international agreement--the Multifiber Arrangement--that is an exception to the normal trading rules of the General Agreement on Tariffs and Trade. Under the MFA, a series of 40 bilateral agreements regulates and restricts imports to a degree unmatched in any other sector. The industry also enjoys the highest average tariffs on imports. We are not urging elimination of these barriers to trade, but we do seek a candid assessment of the industry's condition and its purported need for additional relief over and above the extensive levels of existing protection.

Throughout the 99th Congress, the domestic textile and apparel industry repeatedly asserted that it would be extinct by 1990 if H.R. 1562 (the predecessor to S. 549) were not enacted into law. We are now halfway to doomsday, but the industry shows no signs of dying. Indeed, it is thriving, outperforming nearly all other manufacturing sectors. We hope you'll come to recognize that its autobiographical obituary was printed prematurely.

I. AN OVERVIEW OF RETAILING

Retailers are a major industry in the country, employing 16 million people or roughly 15 percent of the American workforce.

Our annual sales of over one trillion dollars constitute a third of the nation's gross national product. Because we make a substantial contribution to the health of the economy, retailers have a major stake in the formulation of U.S. trade policy.

We in retailing have much in common with you in the Congress. Our customers are your constituents. When they are unemployed, we suffer. We don't look at unemployed Americans as mere statistics. We see a loss of livelihoods and the lifeblood of our communities. We see our customers without work, without a chance to maintain a lifestyle developed through a lifetime of hard work. When their towns and communities are depressed, we feel the consequences. Like you, we share the goal of ensuring that they have jobs and that their communities thrive.

To remain competitive and to keep our own people employed, retailers must find merchandise that offers value to American consumers, at a price they can afford to pay. We prefer domestically produced goods to imports, but when domestic sources of supply are unavailable, overseas manufacturers often help us meet customer demand.

II. ANALYSIS OF THE LEGISLATION

The Textile and Apparel Trade Act of 1987 would restrict U.S. textile and apparel imports to 1986 levels plus a mere 1 percent growth thereafter on a category-by-category basis. Additionally, it would freeze nonrubber footwear imports at 1986 levels. The bill also would--for the first time--subject the exports of Canada and the European Community to quotas. If enacted, it would:

- raise consumer costs by an additional $10 billion per year over the billions consumers already pay annually in hidden textile and apparel taxes;
- force 52,000 retailers out of work, while "saving" 47,000 textile and apparel worker jobs, at a cost to consumers of $223,000 per job protected;
- dramatically decrease the selection and variety of merchandise available in retail stores; and
- invite retaliation against U.S. exports, principally agricultural exports.

The bill is fundamentally flawed. It is not a "modest" measure. It ought to be rejected.

1. Increased consumer costs. This legislation would impose substantially higher costs on consumers--our customers and your constituents--at a time when they already are burdened with billions of dollars in hidden textile and apparel taxes. Based on an analysis prepared by the International Business and Economic Research Corporation (IBERC), we estimate that this legislation initially will increase consumer costs by $10 billion annually. By 1996, when the first official evaluation of the legislation is required, consumers will have paid an additional $88 billion for textile and apparel products.

The additional costs would fall disproportionately on our lower- and middle-class customers, who are least able to afford significant price increases. Given the hidden textile and apparel taxes they already are forced to pay, they should not be burdened with an additional tax on basic necessities.

2. Job losses. Does anyone "gain" from this legislation? According to the IBERC study, the additional import restraints would "save" roughly 47,000 textile and apparel workers jobs.

However, as retail sales fall due to higher prices and reduced selection, 52,000 Americans will be forced out of work. Not only would this result in a net national loss of some 5,000 jobs, but each job saved would cost consumers a staggering $223,000.

In 1985, Members of Congress were told by FFACT that "if import penetration of U.S. markets continues, hundreds of thousands more workers will be laid off or more likely terminated because of plant closings" (FFACT press release, dated March 19, 1985). Imports have since risen to meet expanding domestic demand. The industry, however, has not been devastated. In fact, in June 1987 textile and apparel worker employment increased and the jobless rate declined when compared to the prior month and year-ago figures, as shown in the following table:

Employment Trends in
Textile and Apparel Industry

Total Employment

	June 1987	May 1987	June 1986
Textile Sector	728,000	727,000	704,000
Apparel Sector	1,108,000	1,107,000	1,101,000

Unemployment Rate

	June 1987	May 1987	June 1986
Textile Sector	2.8%	4.5%	7.7%
Apparel Sector	9.9%	11.0%	10.2%

Source: U.S. Department of Labor

Indeed, the June jobless rate for the textile industry was the lowest since October, 1968. Yet, the Committee is being asked to force 52,000 retail employees out of work, simply to provide more jobs in the domestic textile and apparel industry.

These job losses would be felt nationally. As one would expect, labor in three southern states (North Carolina, South Carolina, and Georgia) would be the prime beneficiaries of the additional quotas. Yet, these states have been enjoying gains in manufacturing employment, including increased textile and apparel employment, since 1985. Moreover, the unemployment rate in these states is well below the national average. Workers in other states should not be forced out of work simply to increase employment opportunities in these states.

3. Decrease in selection available to customers. The additional restrictions being proposed would cut trade dramatically. As a result of a substantial decrease in imports, retailers, their customers, and the country will be hurt in a variety of ways. First, many of the products our customers currently demand simply will not be available. Domestic manufacturers either cannot or will not fill this need. The availability of children's wear and budget department items in particular will be substantially reduced, if not eliminated.

Second, as foreign manufacturers change their product mix to adjust to the new quota limits, they will increasingly concentrate on producing higher priced items to garner the higher profits on the limited number of products they can export. As a result, many lower-priced items simply will not be available and those items that will be available in retail stores will be too expensive for persons on a limited budget.

Finally, reduced supply and corresponding higher prices will generate inflationary pressures. In the past year alone, import prices have increased substantially as the market has felt the force of increased quota restrictions, the fall in the value of the dollar, and overall growth in demand. Enactment of S. 549 would only compound the problem.

4. Retaliation. Enactment of the legislation would provoke retaliation against our exports, in particular agricultural exports. As the Committee knows, the European Community, Canada, and other governments already have indicated that they could or would be forced to retaliate. This would be particularly devastating to farm families in the Midwest. Agriculture already has paid a heavy price for textile protection. In 1983, for example, the textile bilateral agreement between the United States and China lapsed as a result of our government's attempt to freeze China's share of our domestic market. China shifted its source of grain purchases, costing our farmers an estimated $500 million in lost sales.

Agricultural exports have always been the first to feel the sting of retaliation. In addition, some of our most sensitive and competitive exporters--like those in the high tech industry--also would be hurt. It simply makes no sense to add yet another layer of protection for the domestic textile and apparel industry at the expense of U.S. farmers and other export-dependent Americans.

5. Flawed legislation. While described as "modest," this legislation will create havoc within the retailing community by totally disrupting retailers' ability to follow changes in market demand. In addition to the 1 percent limitation on growth, the bill also provides the Secretary of Commerce with authority to prescribe regulations to enforce the Act, including rules to ensure the "reasonable spacing of imports over [each] calendar year." Like the licensing provision in H.R. 1562, this requirement--if it could be administered--would unnecessarily complicate the importing process and impose additional costs.

By mandating global quotas, the legislation also would bring products from Canada and the European Community under tight control. Their exports to the United States are confined largely to yarns and fabrics (about two-thirds of total trade in 1986) purchased by U.S. textile and apparel manufacturers for further processing in the United States. Their trade in finished apparel is of little consequence, accounting for just 3.5 percent of total apparel imported from all sources in 1986.

The legislation would leave the Administration with the delicate task of allocating quota rights among our trading partners. It would be forced either to breach the terms of existing bilateral agreements with many smaller developing country suppliers by reducing annual growth to 1 percent (destroying the MFA in the process) or to grant newly controlled suppliers such as the European Community and Canada less than 1 percent growth. In the past, retailers could react to new controls on a given country's trade by seeking new sources of supply. No longer. This would become a zero-sum game. If one country is allowed to grow by more than 1 percent, another country's growth must be reduced by an offsetting amount.

Finally, since the bill provides for only a 10 percent reduction in tariffs--not a 10 percentage point reduction--the "compensation" being provided is virtually meaningless, particularly when staged over 5 years. With textile and apparel tariffs averaging 19 percent, they would be reduced to only about 17 percent, still roughly 4 times higher than the average duty on all other imported products. Moreover, textiles and footwear would presumably be forever barred from being the subject of tariff negotiations except as provided in this bill.

6. Immediate Impact on Retailers and Consumers. The domestic apparel market is consumer driven. This means that the consumer, not the retailer, ultimately determines what sells and what stays on the shelf. It also means that the market is subject to constant change, with some segments growing rapidly while others stagnate or even decline. Retailers must anticipate the market's direction, even as they try to influence its course through a variety of merchandising practices.

If enacted, S. 549 would severely disrupt this process. The textile industry's assertion that limiting import growth to 1 percent simply places imports and domestic manufacturers on a common footing is patently false. The 1 percent growth rate is substantially below actual long-term growth of 2 to 3 percent in the U.S. market. Indeed, during the economic expansion that began in 1982, total textile fiber consumption has actually been growing at a rate approaching 10 percent annually. More important, long-term growth rates are of little consequence to retailers trying to keep up with a surge in demand.

The proposed legislation would go beyond just "fixing" the U.S. market for domestic manufacturers by guaranteeing them the same share of consumption in future years that prevailed in 1986--an idea totally antithetical to our free market economic system. The legislation would grant domestic manufacturers an increasing share of the market over time in any product category where growth in consumption exceeds one percent. In other words, this legislation would force retailers to buy an increasing share of their overall product mix domestically, regardless of whether it made sense from a merchandising standpoint.

The legislation would dramatically limit consumer choice, the lifeblood of American retailing, and impose enormous added costs on the American consumer. Because foreign producers would upgrade their product mix in each individual category by selling those items that yielded the highest return, retailers would be forced to buy domestic merchandise at higher prices for equivalent quality and styling (where available) to fill out product lines. The ability to offer a unique product line, crucial in retailing, would be severely circumscribed.

To show this, let's look at the growth in demand for sweaters since 1980 and see what impact this legislation would have had on retailers and their customers. Total domestic sweater consumption (of cotton, wool, and manmade fibers) increased by 6.5 percent annually between 1980 and 1985--domestic production increased by 5.7 percent on average, while imports rose 7.0 percent. Had S. 549 been in effect in 1980, almost 90 percent of the increase in sweater imports between 1980 and 1985 would have been denied to retailers because of the 1 percent annual growth limitation. Domestic manufacturers could not have filled the void. Their own production was already expanding at an extraordinary rate in the hottest part of the market, cotton sweaters. In fact, output increased more than tenfold between 1980 and 1985.

Import growth in cotton sweater categories was already circumscribed by existing bilateral agreements with major suppliers under the MFA. The pressures on supply generated by tremendous market demand for women's cotton sweaters were relieved in part by the development of the ramie/cotton sweater market. Had controls been in place to restrict growth in these imports, retailers would have been unable to satisfy a large part of domestic market demand for sweaters. Further shifts to domestic sources would have been unrealistic given the cost structure and manufacturing base of domestic producers. As a result, retailers and consumers would have been the losers.

During the period 1980-1985, the price of imported sweaters would have been, on average, 22 percent higher had the 1 percent import growth limitation been in effect. Domestic sweater prices probably would have risen by at least an average of 38 percent (source: IBERC). Additionally, retail sales of sweaters would have been reduced each year between 1982 and 1985. Domestic producers would not have been able to make up for all of the decline in imports. Yet, the domestic industry now seeks to increase such constraints irrespective of the harm its "modest" bill would impose on retailers, their employees, and their customers.

III. MORE HELP FOR A HEALTHY INDUSTRY?

Upon introduction of H.R. 1562 in the 99th Congress, the nation was told that "[i]f [Congress does] not act now to curb imports, in five years our entire industry and four million jobs that depend on it will simply cease to exist" (FFACT press release, March 19, 1985). Notwithstanding this dire prediction, the domestic textile and apparel industry is prospering. This year's pleas for protection should be assessed in light of the industry's current economic performance.

The domestic industry is doing very well, as measured by a wide variety of indicators. For example, aggregate earnings for the textile industry rose by 67% in 1986 over 1985. Moreover, in the first quarter of 1987, 8 major textile manufacturers enjoyed a nearly 110% increase in profits over the same period in 1986. Aggregate textile industry output reached its highest point ever in the fourth quarter of 1986. The industry's overall rate of capacity utilization reached 95 percent in the final quarter of 1986, the highest level recorded in 20 years, and has since remained at that level. Moreover, industry employment has remained stable since early 1985, with jobs recently up in both the textile and apparel sectors and the major textile state economies continuing to outdistance the nation overall in creating new jobs while maintaining lower than average rates of unemployment. Imports in general have largely captured incremental growth in demand, without cutting deeply into the existing manufacturing base. In short, notwithstanding increased imports, the industry is prospering.

A recent article appearing in The Charlotte Observer adds life to these statistics, emphasizing the extent to which states like North Carolina are sharing in the robust health of the domestic industry (see Exhibit 1). The article begins as follows: "With many Carolina textile mills running at full capacity and industry profits pushing stock prices to record levels, the region's 318,000 hourly textile workers' wages continue to advance moderately . . . ." It goes on to state that the plants of the industry's largest textile manufacturer "are operating seven days a week, 24 hours a day because of strong demand." Finally, the article quotes the regional director of the Amalgamated Clothing and Textile Workers Union: "The industry is experiencing the best years it has ever had. But the message they're giving the workers is: 'You can share in our problems, but you can't share in our profits.'" This is the same industry that apparently is profiting at the expense of apparel manufacturers as well (see Exhibit 2). And yet you are being told that this is an industry verging on extinction. An industry that needs ever-more protection to maintain production and employment? Consumers should not be forced to further feed an industry with such an avaricious appetite.

IV. AMERICAN COMMITMENT TO EXPANDING WORLD TRADE

As retailers, we vitally depend on the health of the world trading system. Our customers rely on the output of other nations. We must not take the easy route and blame all of our ills on foreigners. Along with the Administration, Congress must work to establish a world trading environment in which export opportunities increase for all.

We commend the Committee for producing an omnibus trade bill that furthers this goal. At the outset of hearings on trade reform this year, RITAC urged the Congress to produce positive trade legislation that did not provide sector- or country-specific relief from import competition. Enactment of the textile quota bill not only would undermine your accomplishment, but would jeopardize the multilateral trade talks that are now finally underway.

In the process of expanding world trade, we recognize that the United States economy will undergo profound changes. This has been occurring steadily since the end of World War II. As new industries develop and prosper, others will decline. We support a healthy domestic textile and apparel industry and hope it will undertake the measures necessary to survive. Further protection, however, is not the answer.

The Administration obviously shares our goal of preserving a viable domestic industry. In our view, it has perhaps gone too far in its efforts to assist the domestic textile and apparel industry adjust to competition. In 1986 alone, it negotiated or imposed over 200 quotas. It renegotiated a significantly tougher MFA to cover virtually all textile and apparel products.

Moreover, it renegotiated existing bilateral agreements with Korea, Taiwan, Japan, and Hong Kong, four of our largest suppliers, to restrict imports of these products to less than 1 percent growth per year. It is at present renegotiating the bilateral agreement with the last of our largest suppliers, China. These efforts, coupled with existing restrictions and very high tariffs, has ensured that the domestic industry remains the most protected sector of our economy. Congress need not provide any further relief.

CONCLUSION

The ink has not yet dried on the Senate's omnibus trade bill, but you already are being asked to provide further, special relief for a selected industry, the same one which only last year obtained an extended renewal of the MFA. Your massive overhaul of the U.S. trade laws apparently is not enough for the domestic textile and apparel industry. It doesn't want more and tougher tools; it wants the market for itself, without having to play by the rules. Mr. Chairman, as you and the Members of this Committee analyze this legislation we hope that you will keep some fundamental policy questions in mind.

First, do you wish to sanction arbitrary and unilateral trade restraints designed to stifle growth and competition? Like its predecessor (H.R. 1562), the proposed bill is much more than a mere "enforcement" measure designed to advance the purposes of the Multifiber Arrangement. It is inconsistent with and contrary to the MFA and, if enacted, would have far-reaching effects totally at odds with our country's free market system. It is an extreme proposal which would radically alter the extensive regulatory system now in place to restrict textile and apparel imports.

Second, do you wish to invite retaliation against those sectors of our economy so dependent on exports, simply to provide further protection to the most protected of our industries? Many of our most important sectors--for example, wheat and soybean growers and the shipping companies that move their products--already face a bleak export market. With the Senate having just agreed to an omnibus bill designed to spur exports, do you want to crush whatever hope they have left of expanding export markets?

Finally, do you wish to raise substantially the costs of clothing to consumers, in particular families with school children and families who have a limited clothing budget? Must they pay ever-higher prices simply to provide further relief to an industry with an insatiable appetite for protection? Similarly, are 52,000 retail employees across the country to be put out of work solely to create textile and apparel jobs at a cost of $223,000 each?

Mr. Chairman, American retailers support a strong, viable domestic textile and apparel industry; but by any measure, the industry already is strong and viable. If Congress imposes global restraints for an industry that is enjoying very high production levels and healthy profits, and running at virtually full operating capacity, how do you respond to all the U.S. industries that fall short of such robust economic health and wonder why they aren't provided with across-the-board import quotas? The domestic textile and apparel industry's latest quota bill is simply a cleverly disguised measure to capture the domestic market through legislative fiat. For the sake of retailers, millions of retail employees, and a nation of retail customers, RITAC urges you not to report out this legislation.

Thank you.

STATEMENT OF THE TAIWAN FOOTWEAR MANUFACTURERS ASSOCIATION IN OPPOSITION TO S. 549

This statement is submitted on behalf of the Taiwan Footwear Maanufacturers Association, 131 Sungchiang Road, Taipei, Taiwan, Republic of China, in opposition to the enactment of S. 549. The statement has been prepared by Tsu-wang Hu, who is duly registered under the Foreign Agent Registration Act, Registration No. 3791 (T. W. Hu, 5509 Nebraska Ave., N. W., Washington, D. C. 20015, Telephone: 628-1191).

As of May 1987, the Taiwan Footwear Maanufacturers Association (TFMA) has 1,357 members, encompassing the majority of manufacturers of footwear and footwear parts in Taiwan. For all intents and purposes, all footwear imported into the United States from Taiwan is produced by members of TFMA.

TFFMA wishes to thank the Committee of Finance of the Senate for this opportunity to present its views concerning S. 549 and hopes that the members of the Committee will take this statement into consideration.

1. Import Restraints Would Result in Increased Financial Burden To The American Consumer

S. 549 would impose substantial financial burdens on the American consumer. In a study conducted by the International Business and Economic Research Corporation (IBERC), released in March 1987, it was estimated that for the first year alone, the bill would result in a 9 percent increase in the cost of imported shoes.

U.S. Department of Commerce statistics indicate that, in 1986, total import of footwear were valued at US$6,175.4 million. A nine percent increase on such an import price would amount to US$555 million. At the retail level, this increase could amount to as much as $ 2 billion, an increase which would have to be borne by the American consumer.

Given the fact that most imported footwear, particularly footwear from Taiwan, is in the low to medium price range, this 2 billion dollars increase would largely be borne by low to medium income families.

2. Import Restraint As Proposed in S. 549 Will Distort The Market Distribution System

S. 549 proposes to allocate imported non-rubber footwear into 15 categories in proportion to the quantities imported in each category during 1986. Each category is to be further divided by an arbitrary price line of $2.50 per pair into "high" and "low" priced non-rubber footwear. Thus, in actuality, 30 categories would be created.

This arrangement allows no flexibility among the categories. Thus, when and if there is any style or demand change, it will create an unbalanced supply and demand situation in the American market.

3. Import Relief As Proposed by S. 549 Will Be Costly

In his memorandum to the United States Trade Representative dated August 28, 1985, President Reagan cited the Council of Economic Advisers' estimate that, in order to create 13,000 to 22,000 jobs with an annual wage of $14,000 per worker -- the goal suggested by USITC in the establishment of a global quota system -- it would cost $26,300 per job. Such a program would amount to $2.0 billion during the five-year quota program recommended by the USITC. Since S. 549 does not set a time limit to the relief program, the cost of it could be much higher.

4. The American Footwear Industry is Already Well Protected By High Tariff Rates

The United States is known to be a low import tariff country. The average duty on all commodities entering the United States is about 3% ad valorem. What is not generally known is that certain American industries, the footwear industry among them, are protected by unusually high tariff rates.

Tariff rates on imported footwear are discriminatory against low priced footwear, much of which is imported from Taiwan. The following examples illustrate the high tariff rates on certain imported shoes:

TSUSA NO.	Description	Tariff Rate
	Welt Footwear:	
700.25	Not over $2.00 per pair	17% ad val.
700.26	$2.00 to $5.00 per pair	17¢ per pair
700.27	$5.00 to $ 6.80 per pair	5% ad val.
	Other Leather Footwear:	
700.43	Not over $2.50 per pair	15% ad val.
700.45	Over $2.50 per pair	10% ad val.
	Other Footwear:	
700.64	Not over $3.00 per pair	48% ad val.
700.67	$3.00 to $6.50 per pair	90¢ + 37.5% ad val.
700.69	$6.50 to $12.00 per pair	90$ + 20% ad val.
700.71	$12.00 per pair and up	20% ad val.

5. There Is No Restriction On The Importation of Footwear Into Taiwan

For many years, Taiwan has not imposed any restrictions on the importation of shoes. Any quantity of shoes may be imported from any free world country at any time, provided the importer pays duty on them.

American producers should be encouraged to export their products to Taiwan. TFMA as well as several government agencies would be glad to assist American exporters in establishing business contacts to sell American goods in Taiwan.

6. The Tariff Rate On Imported Shoes In Taiwan Has Been Reduced

In recent years, the government on Taiwan has reduced tariff rates on imported shoes twice. In late 1985, the rate on all imported shoes was 30% ad valorem; this was reduced to 15% ad valorem in October 1986. In April of this year, it was further reduced to 10% ad valorem.

The 10% ad valorem rate is applicable to all shoes. It is much lower than many U.S. rates on shoes, which as noted above run as high as 48%.

7. The Footwear Industry In Taiwan Is Also Facing Hardships

The footwear industry in Taiwan has faced tremendous hardships in recent years. The newly developed countries in Asia and the Pacific are establishing textile and footwear industries which compete directly with Taiwan's exports.

In the manufacturing industry in Taiwan, the average monthly wage is NT$13,600, with an average work month of 209 working hours. Using the August 5, 1987 exchange rate of NT$30.53 to US$1.00, (Wall Street Journal, August 6, 1987) the average hourly wage works out to be US$2.13.

Although considerably lower than the American rate, the US$2.13 hourly wage is much higher than that of our close competitors, the Republic of Korea and Hongkong. Furthermore, it is much higher than that of many lesser developed countries in the area. Competition from these countries is cutting into the profit margin of every footwear maanufacturer in Taiwan, particularly those making low priced shoes. Consequently, many small producers have gone out of bussiness in the past year.

The recent appreciation of the value of the New Taiwan dollar to that of the United States dollar, from NT$39.90 at the beginning of 1986 to that of NT$30.53 to US$1.00 on August 5, 1987, has caused further financial hardship to TFMA members. This 23.5% appreciation of the exchange rate means a 23.5% increase in labor cost on all exported goods, footwear industry is no exception. In addition, since most of the materials involved in the manufacturing of shoes are available locally, the manufacturer cannot take advantage of the favorable exchange rate to purchase raw materials from abroad.

In closing, TFMA wishes to reemphasize that S. 549 will (1) result in increased financial burdens to the American consumer; (2) distort the American market distribution system; and (3) be costly to carry out. Furthermore, the American footwear industry is already well protected by high tariff rates. Therefore, it is hoped that S. 549 will not be enacted.

TFMA wishes to thank the Committee for this opportunity to present its views.

STATEMENT OF
THE TAIWAN TEXTILE FEDERATION
IN OPPOSITION TO S. 549,
THE TEXTILE AND APPAREL TRADE ACT OF 1987

I. INTRODUCTION

This statement is submitted on behalf of the Taiwan Textile Federation ("TTF") of the Republic of China on Taiwan in response to the Notice of the Senate Committee on Finance soliciting comments on S. 549, the Textile and Apparel Trade Act of 1987 ("the bill").

TTF respectfully submits that S. 549 is both unwarranted and damaging to the larger interests of both the United States and Taiwan. The grounds offered by proponents of the bill are either plainly wrong or do not support imposition of measures that are as severe as those contained in S. 549, especially against Taiwan. Contrary to oft-repeated assertions, Taiwan does not maintain tariff or non-tariff barriers to imports of U.S. textiles and apparel, nor are its manufacturers subsidized. Wage rates of workers in the textile and apparel industry are higher in Taiwan than in most countries of comparable level of economic development. The Taiwan textile and apparel industry is a significant customer of U.S. products, which sales would certainly be jeopardized by enactment of this legislation.

This sort of protectionist legislation is especially unwarranted in the case of Taiwan because of the absence of any threat of increased imports from Taiwan. A recently negotiated bilateral textile agreement effectively restricts practically all textile and apparel imports from Taiwan to well below 1% annual growth. As a result of these increased restraints and other factors, such as a rapidly appreciating currency, textile and apparel imports from Taiwan have actually decreased in 1987 and prices have increased. Taiwan thus could not be the source of any alleged impact on the domestic industry.

These facts must be weighed against the fact that the U.S. textile and apparel industry is enjoying extraordinary health and profitability. Employment, production, capacity utilization, sales and profits are up. In fact, it is performing well above the national average of U.S. manufacturing industries. Moreover, it is already one of the most protected industries in the United States -- achieved at enormous cost to U.S. consumers. The imposition of further regressive burdens on U.S. consumers is entirely unwarranted and would hit hardest those who can least afford it.

The damage done by enactment of this legislation extends far beyond the United States for the bill would violate the basis of the bargain struck by the United States in its bilateral and multilateral textile agreements and is contrary to the U.S. obligations under the GATT.

For these reasons, discussed in detail below, the TTF believes S. 549 should not be enacted into law.

II. TAIWAN TEXTILE AND APPAREL IMPORTS ARE NOT INJURING AND DO NOT THREATEN THE U.S. INDUSTRY

A. Bilateral Agreements Provide Effective And Adequate Protection to the U.S. Industry

An incessant cry from proponents of the bill has been that imports, especially from major suppliers such as Taiwan, have "surged" and continue to "flood" the U.S. market, threatening the existence of the domestic industry. The facts, especially as they relate to

Taiwan, belie that cry. Since at least 1962, textile imports from Taiwan have been subject to very strict limits imposed based on a bilateral agreement between the United States and Taiwan. In July of 1986, the U.S. and Taiwan entered into a new bilateral textile agreement which increased already severe restraints. The new bilateral included the following specific measures:

1. The product coverage was expanded to include non-MFA textile and apparel products, which had never been subject to restriction from any country in the past. The newly covered products included silk blends, linen, and ramie. With the inclusion of these products, the bilateral agreement effectively covered all types of textile and apparel products.

2. Import growth was all but eliminated. Overall, the new agreement limited import growth to approximately 0.5% (one half of one percent) on average. Moreover, the growth factors were based on import levels in 1985, which meant that imposition of the restraints would probably lead to import reductions in many categories. As discussed further below, these new restrictions have caused Taiwan imports to plummet.

3. The new bilateral agreement also imposed aggregate group limits for each of the major groups, which eliminate the possibility of using flexibility provisions to increase exports.

4. Sublimits aimed at specific types of products, such as ramie sweaters and yarn-dyed shirts, were also imposed in the new agreement in order to extend an additional measure of unwarranted protection to certain narrow segments of the U.S. industry.

New bilateral agreements also were entered into with most of the other major textile suppliers in 1986. These agreements contained increased restrictions of similar magnitude (though some cases are not as drastic). The 1986 bilateral textile agreement between the United States and Taiwan originally extended through 1988. In April of this year, based on substantial tariff reductions applicable to textile and apparel products agreed to by Taiwan, the United States and Taiwan agreed to extend the 1986 bilateral textile agreement through 1989.

The severe restraints contained in the U.S./Taiwan bilateral agreement are enforced through a strict system of export certification. Taiwan has adopted a sophisticated satellite communications system to advise the United States of the issuance of export certifications. These and other measures have ensured that the restraints agreed to in the bilateral agreement are being enforced and complied with.

B. Imports From Taiwan and Other Major Suppliers Are Decreasing

These severe new bilateral agreements have achieved what was intended by the United States -- a cutback in textile and apparel imports from the major suppliers. In the case of Taiwan, the impact has been dramatic, as the following data demonstrates.

Imports of Textiles and Apparel From Taiwan
(Million SYE)

	Year to Date			Year Ending		
	3/86	3/87	% Change	3/86	3/87	% Change
Total Imports	477.2	385.2	(19.27)	1,734.5	1,676.2	(3.36)
Total Apparel	273.8	226.5	(17.30)	1,048.8	1,006.1	(4.07)

Total Nonapp.	203.3	158.8	(21.92)	685.7	670.1	(2.27)
Total CWM	457.5	373.8	(18.28)	1,686.9	1,633.7	(3.15)
CWM Apparel	255.8	218.3	(14.66)	1,006.5	973.8	(3.25)
CWM Non-Apparel	201.6	155.5	(22.88)	680.4	659.9	(3.01)

Source: Major Shippers Report (Data through March 1987), dated May 13, 1987.

Total textile and apparel imports from Taiwan decreased nearly 20% in the first quarter of 1987 over the comparable period in 1986. The decrease was 3.4% for the year ending in March, 1987. The data further shows decreases in each of the aggregate subcategories, indicating that the decreasing total imports do not obscure any surges in narrower sectors. Total cotton, wool and manmade ("CWM") textile and apparel imports fell over 18% in the first quarter of 1987; in apparel, almost 15%; and in non-apparel products, nearly 23%.

The magnitude of these decreases demonstrate that this is not simply a minor aberration but rather a significant reduction in the volume of imports from Taiwan. While the value of Taiwan imports may have increased slightly, this is the result of significant appreciation of the New Taiwan Dollar ("NT$") and movement by some producers to higher value products in response to the restraints, and not an increase in volume of imports. The hard fact is that there were fewer textile imports from Taiwan in the first quarter of this year than last. It is difficult to imagine how this absolute decline in imports can be labeled a "surge" threatening the domestic industry.

Nor is this pattern of decreasing imports limited to Taiwan. Many of the traditional large suppliers have shown comparable decreases in imports in the first quarter of 1987. Countries which experienced a decrease in total textile and apparel imports in this period (as expressed in SYE) include Hong Kong (17.62%), Japan (18.65%), Italy (28.17%), and Pakistan (23.84%). Major Shippers Report. The "big three" as a whole showed a decrease of 12.4% in the first quarter of 1987 and essentially no growth at all for the year ending March, 1987. Id.

Clearly, the traditional scapegoats of the textile lobby are no longer the source of any problems that may exist. It would be manifestly unjust to now adopt legislation that penalizes countries such as Taiwan for the imports of other countries.

C. Significant Appreciation of the New Taiwan Dollar Has Made It More Difficult For Taiwan Companies to Compete in the United States

Textile and apparel exporters in Taiwan have been confronted not only with an extremely restrictive new bilateral agreement, but have also with a substantial appreciation of the NT$, making their products more expensive in the U.S. market. In fact, the Taiwan dollar has appreciated 24% against the U.S. dollar since January 1986. Journal of Commerce, at 5A (August 12, 1987).

On May 21, 1987 the ROC Government announced plans to lift certain foreign-exchange and capital controls. The new regulations allow free convertibility of the NT$ and free outflow of funds for overseas investments. These steps reinforce the rapid appreciation in the value of the NT$.

In addition, Taiwan producers buy some of their fabric for their clothing exports from Japan, whose currency has also significantly appreciated. Even U.S. officials admit that this fact has recently slowed Taiwan exports to the United States. See Statement of Patrick C. Jackman, Senior BLS Official, New York Times, at 35, col. 1 (May 23, 1987).

This currency appreciation has made it much more difficult for Taiwan producers to compete in the U.S. market. In fact, they have recently lost substantial business in the United States.

III. TAIWAN TEXTILE TRADE IS FREE AND FAIR

A. There Are No Tariff or Non-Tariff Barriers to U.S. Textile and Apparel Exports to Taiwan

Proponents of S. 549 claim that textile supplying countries engage in a host of unfair or unreasonable trade practices relating to textiles and apparel. The allegedly unfair practices include imposition of tariff and non-tariff barriers, subsidies, and unreasonably low wages. With respect to Taiwan, these assertions are unfounded.

In the Fall of 1986, Taiwan undertook several rounds of tariff reductions on textile and apparel products. In conjunction with the negotiations over extension of the U.S./Taiwan bilateral textile agreement through 1989, Taiwan implemented the latest in a long series of tariff reductions applicable to textile and apparel products. The most recent tariff reductions covered nearly 500 textile and apparel items, with tariff cuts of as much as 75%. Generally speaking, tariffs applicable to textiles and apparel were cut in half. As a result of these tariff cuts, duties applicable now to U.S. textile and apparel imports into Taiwan are lower than tariffs applied by the United States to such products imported from Taiwan.

Supporters of S. 549 continue to blindly press U.S. trading partners to lower their tariffs but ignore the fact that U.S. textiles are protected by tariffs that are probably higher than those on any other product group, in addition to the enormous direct restraints imposed under the bilateral agreements. The United States maintains tariffs averaging 18.6 percent on textile and apparel imports. Consistent with this history, S. 549 seeks to exempt textiles from the upcoming Uruguay Round, much as textiles and apparel were protected from tariff cuts in the Tokyo Round.

With respect to non-tariff textile barriers, the U.S. Government acknowledged in connection with the negotiations for the extension of the 1986 bilateral that it did not consider there to be any such barriers in Taiwan. Accordingly, the United States requested no further action by Taiwan in that regard. For the United States to now adopt this punitive bill based on unfounded claims that such barriers exist would be most unfair.

The U.S. Department of Commerce study on regulations affecting U.S. textile/exports, which has been cited by many of the bill's supporters, pointed to only three Taiwan regulations affecting U.S. exports. See Foreign Regulations Affecting U.S. Textile/Apparel Exports, U.S. Department of Commerce, International Trade Administration, Office of Textiles and Apparel (April 1986) pp. 242-243. The first was the Taiwan import licensing program. Except for a very limited number of security/military items, such as military uniforms, there are no limitations imposed on textile imports as a result of this program and import licenses are easy to obtain. The second item, the customs duty uplift, has been eliminated. The third, the harbor tax, is not directed specifically to textile imports and is intended to provide for the development and maintenance of port facilities. Such harbor fees are charged throughout the world and cannot be viewed as an impediment to trade. In any event, the harbor tax is now being reduced from 4% to 0.75%.

Moreover, Taiwan textile exports do not benefit from any unfair subsidy or other benefit bestowed by the government on the textile industry. In 1985, U.S. producers filed with the U.S. Department of Commerce a plethora of countervailing duty petitions against major suppliers (most of which they subsequently withdrew). Significantly, they did not file a petition against Taiwan. The reason they did not do so is clear: there are no Taiwan textile and apparel subsidies. Rather than following the proper procedure and subjecting their Taiwan subsidy claims to rigorous investigation and verification by the Commerce Department, proponents of S. 549 wish the U.S. Congress to accept them on an unsubstantiated and unverified basis.

B. Taiwan Is Not A Low-Wage Textile and Apparel Producer

Proponents of textile restraints assert that most of the major textile supplying countries with which the U.S. must compete in the international market enjoy enormous wage differentials which are somehow "unfair". This assertion does not hold up to close scrutiny.

For example, in testimony before this Subcommittee on May 18, 1987, Jay Mazur, president of the International Ladies' Garment Workers' Union, AFL-CIO, stated that Taiwan had a wage rate of $0.57 per hour (at p. 8). Similar statements have been made by other Congressional sponsors of the bill. The facts are quite different, as the following figures reveal:

Taiwan Textile and Apparel Wage Rates
(U.S.$/hr.)*

	1985	1986
Manufacturing	$1.57	$1.99
Man-Made Fiber	2.25	2.77
Textile	1.50	1.96
Apparel	1.23	1.59

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* Assumes exchange rate of 39 NT$/1 U.S.$ for 1985, 32 NT$ for 1986.

Source: 1985-1986 Statistics on Taiwan Textile and Apparel Industries, Taiwan Textile Federation.

The actual wage rates in Taiwan have been considerably higher than the levels asserted by supporters of the bill. Moreover, these wages increased considerably in 1986 over 1985 (31% in the case of textile workers). While these wage rates are, of course, lower than prevailing wages in the United States, relative to other developing countries, they are high. Moreover, any wage differentials are more than offset by unusually high tariffs imposed by the Unites States on textile imports. See H.R.Rept. 99-293, 99th Cong., 1st Sess., p. 20.

There is a more fundamental issue at stake here, apart from the specific facts regarding wage rates, and that is the notion that competitive advantages in wage rates somehow should be considered unfair and should, by themselves, justify increased protection or retaliation by the United States. This notion is implicit in all the arguments of those who support S. 549. The notion is wrong and damaging to the long term interests of the United States. Those who insist that trade policy should be directed toward compensating domestic industries because of wage differentials abroad repudiate generations of belief in the benefits to the U.S. economy of competitive advantage. The effect of such a policy, especially in cases where there was no "unfair act" other than the existence of low wages, would be to penalize developing countries simply because of their less developed economic condition. This position is untenable and contrary to fundamental principles upon which the world trading system is based. If such a precedent were established for the textile industry, would it not also apply to a myriad of other industries? Indeed such a theory would not acquiesce in the wide wage differentials that exist within the U.S. itself, where there has been a noted migration of textile and apparel jobs to right-to-work states.

C. The Taiwan Textile Industry Is A Major Consumer of Numerous U.S. Products

Those who are quick to press for increased restraints on textile imports often lose sight of or simply do not care about the larger two-way trade relationship in this sector. The Taiwan textile industry is a major consumer of U.S. products such as cotton and textile machinery and related equipment. In the last five years alone, Taiwan purchased nearly $620 million in U.S. cotton. 1986 U.S. Foreign Trade Highlights, U.S. Department of Commerce, International Trade Administration (March 1987), p. A-120. East Asian NIC's (Hong Kong, Singapore, South Korea and Taiwan) as a group bought $2.7 billion in U.S. cotton in this same period. Id. at A-112. These sales were related directly to the ability of these countries to export to the U.S. market.

More generally, in 1986 Taiwan was the 10th largest purchaser of U.S. exports and the 6th largest partner in terms of two-way trade. Id. at A-213, A-215. Taiwan was the 5th largest consumer of U.S. agricultural products in 1986, accounting for U.S. sales of $1.2 billion. Id. at A-253. While Taiwan does, of course, maintain a net trade surplus with the United States, it has made substantial and concerted efforts to increase purchases from the United States and reduce the surplus. This larger trade picture and relationship cannot be ignored in the debate over textile imports. The textile industry in Taiwan is a major industrial sector which provides critical foreign exchange earnings necessary to allow Taiwan to continue purchasing substantial amounts of U.S. products. It is short-sighted and misleading to speak only in terms of a two-way balance of trade in textiles. A serious setback to the Taiwan textile industry, such as may very well result from enactment of S. 549, would have extensive adverse affects throughout the Taiwan economy, and indeed on those U.S. exporters who have benefitted from Taiwan sales in the past.

IV. S. 549 VIOLATES THE GATT

S. 549 violates international agreements with respect to which the United States is a signatory, such as the GATT.[1] Article XI of the GATT prohibits the unilateral imposition by one country of quantitative import restrictions unless specifically authorized under a GATT rule. Proponents of the bill claim that its quotas are authorized by Article XIX of the GATT, the escape clause provision. By its terms, that article permits the imposition of temporary import restrictions in order to respond to increased imports of a specific product which, upon investigation, have been found to cause or threaten to cause serious injury to a domestic industry producing a like product.

The bill violates Article XIX in many respects.

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[1] Although Taiwan is not a GATT member it has entered into bilateral trade agreements with the United States wherein the two sides have agreed to accept many of the GATT obligations and responsibilities with respect to each other.

One, it provides permanent rather than temporary relief. Its only limitation on the duration of import restrictions is a provision to review them every ten years; there is no provision for modification or termination of those restrictions.

Two, the bill's broad declaration of the existence of injury to an entire industry from increased imports does not meet the requirement of Article XIX of product by product injury findings based on a careful investigation. A product by product analysis would reveal that many subject textile and apparel products are not entitled to escape clause relief. For instance, U.S. cotton sweater producers, who have increased their production over tenfold since 1980, could not possibly claim injury from imports. Moreover, not all textile and apparel imports are increasing. For example, between 1984 and 1986, imports of purses and luggage (of manmade-fiber textiles under MFA category 670) declined 13%; imports of wool tops and yarn plummeted 22%; and, imports of woolen and worsted fabric fell 23%.

Three, the compensation authority given to the President under the bill is far from adequate to satisfy the compensation claims of exporters injured by the bill's import restrictions (as permitted by Article XIX). As compensation, the bill permits the President to reduce textile and apparel tariffs by at most 10%, with the reductions to be phased in over a 5 year period. Thus, with the average textile and apparel tariff of 18%, the bill allows for at most only a 1.8 percentage point annual reduction in tariffs over a 5 year period, clearly inadequate to compensate for the stringent quotas it imposes. It should also be noted that the bill unilaterally dictates to exporters the compensation to be provided. By contrast, Article XIX envisions all parties negotiating with respect to the necessary compensation.

And, finally, four, the bill discriminates among countries. In conformity with the requirements of the Most Favored Nation Clause and Article XIII of the GATT, the quota relief Article XIX permits must be applied on a nondiscriminatory basis among countries. (For cites to the extensive legal authority on this point, see J. Jackson, International Economic Relations (1977) 621-22.) While the bill imposes quotas on imports from all countries, it does not require that they be imposed on countries on a pro rata basis based on some prior representative period, as Article XIX requires (id.). Rather, the bill permits stricter (indeed, far stricter) quotas to be imposed on some countries than others. There is every reason to believe, moreover, that the quotas would not be enforced in a nondiscriminatory fashion. Some of the proponents of the bill have actually suggested that it could be administered in precisely that fashion in an attempt to avoid violating the bilateral textile quota agreements which the United States has entered into with 35 countries. Even putting aside the fact that the U.S. Commerce Department has concluded that it would be impossible to avoid violating those bilaterals agreements by such gymnastics, administering the bill in such a discriminatory fashion would squarely conflict with the GATT.

It is noteworthy that even the U.S. Trade Representative has repeatedly and publicly stated that the bill clearly violates the GATT. In fact, he emphasized that point in testimony before the House Ways and Means Subcommittee on May 18, 1987 (at page 17). This significant admission will not be forgotten by U.S. trading partners should the bill become U.S. law.

V. THE U.S. TEXTILE AND APPAREL INDUSTRY IS EXTREMELY HEALTHY

Textile and apparel producers claim that imports have caused a significant contraction in the textile and apparel industry with consequent employment losses. Studies by disinterested parties belie that claim. For instance, a recent study by the Congressional Budget Office of the U.S. Congress concluded that "imports have not caused an abrupt contraction in the industry. Although many firms have exited, existing firms have expanded and other firms, most notably apparel manufacturers, have entered." CBO, Has Trade Protection Revitalized Domestic Industries? (November 1986) 36.

Indeed, as numerous economic indicia reveal, the U.S. textile and apparel industry is extremely healthy, further demonstrating that it is not being injured by imports.

1. In 1986, the textile and apparel industry's return on equity was 14.5%, against the 9.6% average return for all manufacturing--an astounding 51% greater than the manufacturing average. The 1986 annual reports of U.S. textile and apparel producers are replete with glowing remarks concerning their record profits. Morever, those annual reports observe that structural changes in their domestic operations are a major reason for that improved profitability. There is no reason not to believe that they will continue to benefit from those structural changes in the coming years.

The eleven textile producers in the Fortune 500 offered their shareholders a 36% return on equity in 1986, the fourth highest of all industry groups. The Fortune 500 apparel producers offered a 21% average return. A dollar invested in these producers in 1976 would have yielded more than a dollar invested in such high-flying industries as pharmaceuticals, electronics and paper. Journal of Commerce, at 10A (August 3, 1987).

The year 1987 promises to be even more profitable for U.S. textile and apparel producers. The earnings of the ten largest U.S. textile firms skyrocketed 33% in the first half of 1987 over the first half of 1986; for apparel firms, the increase was an even more staggering 45%. Source: quarterly financial reports (10Q's) filed with the SEC. As one textile company executive boasted, "We see nothing to indicate that we won't continue to have increased earnings." Statement of A. Ward Peacock, Spring Industries executive vice president, Wall Street Journal, at 13 (May 11, 1987). Similarly, Jay Meltzer, an apparel analyst for Goldman Sachs, expects further "significant improvements" in the U.S. apparel industry for the remainder of 1987. And Ray Cowen, an apparel analyst for Value-Line, concluded that "it will be a good year for the apparel industry." Women's Wear Daily, at 2 (April 9, 1987). Finally, Burlington Industries recently commented on the

> improving trends in most of the apparel fabric markets and in selected industrial and home furnishing areas. The trend is expected to continue, and results for the current fiscal year...should be well ahead of those recorded in fiscal 1986. 10Q (May 11, 1987) 7. (emphasis added).

2. In the first quarter of 1987, the textile and apparel industries were operating at an impressive 92% and 90% of capacity respectively, well above the national average. Federal Reserve Board. Indeed, textiles demand has been so strong that many producers continued their three-shifts-per-day, seven-days-per-week work pace during the week of July 4th, a traditional closing period (normally a slack time for mill demand). Journal of Commerce, at 4A (June 29, 1987). Fabric shortages are now forcing U.S. customers to place orders for future delivery well into 1988.

3. U.S. textile producers are now complaining that their biggest problem is not being able to find sufficient labor. Newspaper headlines now read "Labor Shortages Frustrate Textile Firms" followed by the observation that "the worker shortage is a new wrinkle in the 18-month-old recovery of the textile industry." Journal of Commerce, at 3A (August 13, 1987). The worker shortage is "part of the fortunes of the industry" says Freddie Wood, Senior Vice President of Kurt Salmon Associates, an Atlanta-based textile management consultant. Id. As the chairman of yarn maker R.L. Stowe Mills

lamented, "the only thing that worries us is getting people to fill the jobs . . . . There's just more [textile] jobs than there are people." Id. On the bright side, government reports show textile employment has increased steadily since the beginning of 1986 (id.), indicating that textile producers are at least mitigating their labor shortage problems.

4. In 1986, domestic textile output rose 10%; apparel output, by 3%. Over a longer period, 1982-86, U.S. textile production leaped 27% and apparel production jumped 19%. Ways and Means Subcommittee Data Appendix, Table A-14.

5. Investment in new plant and equipment by the textile and apparel industry is projected to increased by 8% in 1987 to a near record $1.9 billion. The U.S. International Trade Commission has repeatedly held that an industry which is undertaking significant investments cannot be considered to be injured by imports. See, e.g., Candles from the PRC, U.S. ITC Pub. 1888 (August 1986) 39. Those investments constitute tangible evidence that producers in that industry believe that it is a profitable industry.

VI. S. 549 WOULD IMPOSE SIGNIFICANT COSTS ON U.S. CONSUMERS AND THE U.S. ECONOMY

For the following reasons, the bill would impose significant costs on U.S. consumers and the U.S. economy.

1. By constraining the supply of low-cost imports, the bill will force consumers to pay an estimated $10 billion a year more for clothing. Int'l Bus. & Economic Research Corp. (IBERC), Analysis of the Impact of the Textile and Apparel Trade Act of 1987 (1987) 5. That cost is on top of the $27 billion that existing textile and apparel import restrictions have imposed on U.S. consumers, as estimated in an exhaustive study by Dr. Gary Hufbauer, Wallenberg Professor at Georgetown University's School of Foreign Service. Trade Protection in the United States: 31 Case Studies (1986).

2. A related concern, the bill will contribute to inflation in the United States by increasing textile and apparel import prices (by 6%) and domestic textile and apparel prices (by 2%). IBERC, at 6. Recent inflation trends in the United States have already raised concerns that inflation has returned and may soon quickly accelerate. Significantly, among the seven major Consumer Price Index categories, apparel has shown the biggest increase in the two most recent months for which data is available (March and April). The rise in apparel prices was more than twice as much as any of the other six categories, and the two-month jump was the biggest since 1951. Indeed, in April, apparel prices increased at a disconcerting 18% annual rate (seasonally adjusted) according to the Bureau of Labor Statistics. (The three-month February to April annual rate was an equally disturbing 16.5%.)

3. The poor will be particularly hurt by increases in clothing cost caused by the bill. A substantial amount of imported textile and apparel imports are lower price merchandise distributed through "low-end" channels, and are purchased predominantly by lower income consumers. Accordingly, lower income consumers will pay the heaviest penalty under the bill as the prices rise and product upgrading reduces or eliminates the availability of less expensive clothing. A recent extensive study of textile and apparel import quotas by the U.S. Congressional Budget Office similarly concluded that

> since imported apparel generally tends to be of lower quality and of lower price than domestic apparel, the burden of the quotas would tend to fall disproportionately on the consumers of such products, predominantly the poorer segments of the population.

CBO, Protecting the Textile and Apparel Industries (September 1985) 35.

4. The bill would also cause a significant net job loss in the United States. It allegedly would save 47,000 jobs per year in the textile and apparel industry. IBERC, at 6. But, over 52,000 retail jobs would be lost due to reduced consumer spending on textile, apparel and footwear products whose prices will be inflated by the legislation. Id. Hence, on balance, 5,700 more jobs will be lost in the retail sector than protected in the manufacturing sector.

VII. S. 549 UNDERMINES THE PROSPECTS OF MEANINGFUL PROGRESS IN THE CURRENT ROUND OF MULTILATERAL NEGOTIATIONS (THE URUGUAY ROUND)

In the current round of multilateral trade negotiations (the Uruguay Round), the United States hopes to reach new agreements regarding trade in agriculture, services, investment, high technology products, and intellectual property. In three respects, the bill seriously undermines the prospects for meaningful progress in the Uruguay Round.

One, the bill, if adopted, would violate the commitment of all countries participating in the Uruguay Round (including the United States) to refrain from implementing new import restrictions and to liberalize existing restrictions. (Those commitments were expressed in the Standstill and Rollback provisions of the Punta del Este Ministerial Declaration.) Serious questions would thereby be raised as to the commitment of a major participant (the United States) to the Uruguay Round.

Two, the bill prohibits the President from negotiating in the Uruguay Round to reduce textile and apparel tariffs below the potential reduction contemplated under the bill. (That reduction itself, of course, is only for the purposes of providing compensation). U.S. textile tariffs average 18.6%, far in excess of the 3.6% average U.S. tariff on all other dutiable products. In the Uruguay Round, the United States needs to at least be in a position to be able to offer to reduce its significant trade barriers -- e.g., the substantial U.S. textile and apparel tariffs -- if it is to appear to be engaging in good faith negotiations and if it is to expect other countries to be willing to offer trade concessions to the United States.

Perhaps more importantly, three, adoption of this bill now would send a signal to most of the developing countries or NIC's who depend so heavily on textile and apparel exports in their drive toward economic development that the United States is not prepared to abide by the rules it seeks to have others accept. S. 549, if enacted, will speak clearly to these countries and it will raise in them a substantial degree of skepticism regarding the fairness of the system that the United States would have them support.

VIII. CONCLUSION

For the foregoing reasons, TTF respectfully urges that S. 549 not be enacted into law.

Dated: August 13, 1987 Respectfully submitted,

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Statement submitted by David J. Steinberg, President, U.S. Council for an Open World Economy, to the Senate Committee on Finance in a hearing on S.549, the Textile and Apparel Trade Act of 1987
July 30, 1987

(The U.S. Council for an Open World Economy is a private, non-profit organization engaged in research and public education on the merits and problems of developing an open international economic system in the overall national interest. The Council does not act on behalf of any "special interest".)

As I have done so often in the past 25 years, I am again submitting testimony in opposition to legislated import restrictions on legitimate imports of textiles and apparel or any other products. My opposition to such measures is not out of unconcern with the problems these industries face in an increasingly competitive world. It is, rather, out of conviction that, to the extent these industries need and merit government help at all against foreign competition (meaning subsidies at public expense), such aid should be within the framework of coherent, comprehensive strategies addressing their real problems and needs. Thus, I oppose S.549, the Textile and Apparel Trade Act of 1987, a bill to intensify restrictions on textiles and apparel (including footwear).

There is not now, nor have we ever had, a coherent adjustment or redevelopment strategy for these industries. We have had import controls for these products, in many cases for more than 30 years, but no textile-and-apparel strategy worthy of the name and worthy of a great nation wanting to be responsive to the needs of its people as consumers, workers and taxpayers.

When President Reagan vetoed the last textile-and-apparel import-control bill, I was one "free trader" who was not satisfied. Not that I found fault with his rejection of the bill; rather, I found fault with the absence of an accompanying White House initiative to determine the most prudent ways that government could help these industries adjust to the challenges of foreign competition -- to the extent government help is needed at all and consistent with the total national interest.

I am opposed, not only to this bill's tightening of existing import controls on the affected products, but to the very import controls it is designed to tighten, inasmuch as the existing restrictions lack a coherent, systematically reviewed framework of the kind I have mentioned.

Statement of Gerard J. Van Heuven
Executive Vice President, United States-Mexico
Chamber of Commerce (USMCOC)

for the Committee on Finance
United States Senate
on the Textile and Apparel Trade Act of 1987.

Mr. Chairman and members of the Committee, my name is Gerard J. Van Heuven, Executive Vice President of the United States-Mexico Chamber of Commerce (USMCOC), a binational non-profit organization which represents many of the U.S. companies operating in Mexico and the business interests of over 250,000 Mexican firms, many engaged in trade with the U.S. Our membership includes many of those U.S. textile companies operating under U.S. tariff item 807, and those U.S. industries selling equipment, machinery, and spare parts to Mexico's own textile industry. The Mexican Textile Chamber is also a member of this Chamber.

We appreciate very much the opportunity to present the views of the United States-Mexico Chamber of Commerce before the Committee in opposition to S. 549, the Textile and Apparel Trade Act of 1987. We oppose the bill for five reasons:

THE LEGISLATION IS NOT NEEDED

Given existing restraints on imports under the Multi-Fiber Agreement (MFA), the numerous bilateral textile agreements limiting textile exports to the United States from other countries and the relative profitability of the U.S.'textile and apparel industries at this time, S.549, is not necessary. The United States textile and apparel industries have been the beneficiaries of extraordinary protection from imports for thirty years. The textile and apparel producers have continually adjusted both to dramatic changes in the domestic market and increased competition from a growing number of textile exporting countries. Enacting an across-the-board restraint on imports of textile and apparel products would increase the already substantial subsidy in the form of negotiated export restraints currently enjoyed by all producers in these industries, some of which are competitive in the U.S. and export markets. Enacting such legislation can only damage the long run trading interest of the United States.

THE BILL IS DISCRIMINATORY

What is most objectionable about the specific effects of S.549, in so far as the Chamber is concerned is that it is extremely discriminatory. Because of the high level of exports from the Pacific Rim countries, which have built their textile and apparel industries on export sales to the United States, the bill would effectively cap Mexico's exports of textiles and apparel to the United States at a very low level. Compare, if you will, a one percent growth factor for exports of textile and apparel from Taiwan of $2.8 billion with a one percent growth factor of $3.6 million for exports of textiles and apparel from Mexico to the United States.

The textile and apparel industries in Mexico have, for a number of years, been limited by a number of factors, including an overvalued Mexican peso. The textile and apparel producers in Mexico have never disrupted or threatened to disrupt the United States textile and apparel markets. In fact, since 1967, Mexico has lived up to a bilateral textile export restraint arrangement with the United States and has actually never filled all of the various textile quotas contained in this arrangement. This is due not only to Mexico's lack of export orientation but also to what often are damaging interpretations of product descriptions in certain quota categories. Those interpretations among exporters in Mexico produced great uncertainty as to market accessibility in the United States. The failure to fill such quota volumes was never due to the lack of product quality or production capacity.

In fact, Mexico's textile industry is among the most modern in Latin America, with the largest number of automatic looms. The industry is an important employer, providing more than 600,000 jobs, and accounting for 4 percent of the gross domestic product of Mexico. Unlike the textile industry in other countries it is almost entirely supplied by American companies including industrial equipment and machinery, spare parts and other industrial supplies.

THE BILL FAILS TO ACCOUNT FOR U.S. CONTENT IN MEXICO'S TEXTILE AND APPAREL EXPORTS.

There is another special relationship between United States and Mexican industries which should be considered. Not just because of oil, but because of the 807/maquila industries along the U.S./Mexican border, Mexico is among the top four U.S.

trading partners. For a number of years the textile/apparel part of this trade relationship has been referred to in the bilateral agreements between Mexico and the United States on textiles and apparel. Each of these agreements has contained some reference to the special relationship that exists between U.S. textile and apparel producers and apparel and textile production plants in Mexico. Succeeding textile negotiating teams and Administrations have recognized that the United States has obligated itself to give special consideration to the fact that a substantial proportion of apparel and textile product exports from Mexico contains textile materials made in the United States. However, that recognition and obligation has yet to be specifically implemented in terms of adjusted quota levels to reflect the U.S. content of apparel exported from Mexico and entering the United States under tariff item 807.00

In terms of rates of duty the special relationship between the United States and Mexico is provided for in Mexico by the free in-bond entry of U.S. textile material for maquila operations. These operations are for the most part the activities of wholly owned U.S. firms assembling textile products and apparel from U.S. materials. The United States participates in this special arrangement by providing duty forgiveness based on the value of U.S. content in textile and apparel exports from Mexico and entering under U.S. tariff item 807.00.

However, in terms of the quantitative limitations established under the bilateral textile arrangements, the fact that almost three fourths of the value of Mexican textile and apparel exports to the United States entering under item 807.00 is accounted for by value of U.S. materials included in such imports is completely ignored.

In calendar year 1986, Mexico exported $359.3 million in cotton, wool and manmade fiber textile products and apparel to the United States. Of that total, $241.3 million or 67 percent entered the United States under tariff item 807.00. Based on statistics from the U.S. International Trade Commission, it is clear that just under 75 percent of such imports under item 807.00 was accounted for by U.S. content, i.e. materials exported from the United States for assembly into apparel or other textile products for reexport to the United States.

Moreover, total U.S. exports of textiles and apparel to Mexico in 1986 were $336 million, of which $163 million was apparel, $162 million in fabrics, and $11 million was yarn.

THE BILL FAILS TO ACCOUNT FOR THE TOTAL TWO WAY TRADE IN TEXTILES BETWEEN OUR TWO COUNTRIES

GIVEN THE SPECIAL RELATIONSHIP THAT MEXICO HAS IN TERMS OF TEXTILE AND APPAREL TRADE, A RELATIONSHIP IGNORED BY S. 549, THE TOTAL TWO-WAY TRADE MUST BE TAKEN INTO ACCOUNT. IT IS ESTIMATED FOR EVERY DOLLAR IN MEXICO'S EXPORTS TO THE U.S., THE U.S. EXPORTS $2.85 TO MEXICO. ALSO, THESE FIGURES DO NOT TAKE INTO ACCOUNT PURCHASES OF APPAREL BY MEXICAN IN-BOND ASSEMBLY WORKERS IN U.S. BORDER TOWNS SUCH AS EL PASO, NOGALES, SAN DIEGO, ETC.

THE BILL FAILS TO ALLOW MEXICO TREATMENT EQUIVALENT TO THAT BEING OFFERED COUNTRIES BENEFITING FROM THE CARIBBEAN BASIN INITIATIVE.

THE UNITED STATES HAS SEEN FIT TO RECOGNIZE THE IMPORTANCE OF TEXTILE AND APPAREL PRODUCTION TO THE ECONOMIC VIABILITY AND POLITICAL STABILITY OF THE CARIBBEAN BASIN REGION. IT DOES SO THROUGH THE ADMINISTRATION OF SO-CALLED 807A OR GUARANTEED ACCESS LEVELS PROGRAM FOR TEXTILE PRODUCT AND APPAREL IMPORTS FROM QUALIFYING CARIBBEAN BASIN INITIATIVE BENEFICIARY COUNTRIES. THIS PROGRAM RESTS ON THE FOUNDATION THAT SUCH GUARANTEED ACCESS REQUIRES THE USE OF TEXTILE MATERIALS PRODUCED IN, AND CUT INTO PIECES, IN THE UNITED STATES. BASED ON THE USE OF U.S. MATERIALS, BENEFICIARY COUNTRIES MAY NEGOTIATE GUARANTEED ACCESS LEVELS BY SPECIFIC TEXTILE CATEGORIES.

WE SUBMIT THAT GIVEN PAST AND ONGOING OBLIGATIONS TO MEXICO REGARDING THE SUBSTANTIAL U.S. TEXTILE MATERIAL CONTENT IN MEXICAN APPAREL AND TEXTILE PRODUCT EXPORTS TO THE UNITED STATES, AND IN THE INTEREST OF U.S. TEXTILE MATERIAL PRODUCERS, THE UNITED STATES SHOULD IMMEDIATELY RECOGNIZE THE MAGNITUDES OF SUCH U.S. MATERIALS BEING RETURNED TO THE UNITED STATES BY INCREASING THE LEVELS OF QUANTITATIVE LIMITATIONS PRESENTLY BEING APPLIED TO TEXTILE AND APPAREL IMPORTS FROM MEXICO UNDER THE BILATERAL TEXTILE AGREEMENTS.

WHAT IS REALLY AT STAKE HERE IS TREATMENT FOR U.S. APPAREL PRODUCERS IN MEXICO, MANY OF WHOM ARE MEMBERS OF THE U.S.-MEXICO CHAMBER OF COMMERCE, EQUIVALENT TO THE TREATMENT BEING OFFERED THE BENEFICIARY COUNTRIES OF THE CARIBBEAN BASIN INITIATIVE. SUCH TREATMENT CAN BE ACHIEVED BY INCREASING THE QUOTA LEVELS CURRENTLY PROVIDED IN THE BILATERAL AGREEMENTS.

ENCOURAGING STABILITY AND GROWTH IN MEXICO IN THOSE INDUSTRIES CLOSELY ALLIED WITH U.S. MANUFACTURERS IS A CONTRIBUTION THAT THE UNITED STATES ALONE CAN MAKE TO THE STABILITY AND ECONOMIC GROWTH IN ITS COMMON BORDER AREA WITH MEXICO. SUCH STABILITY AND ECONOMIC GROWTH ARE VERY CLOSELY RELATED TO THE CONCERNS WHICH CAUSED PRESIDENT REAGAN TO UNDERTAKE THE GUARANTEED ACCESS LEVELS PROGRAM FOR CARIBBEN BASIN INITIATIVE BENEFICIARIES, A DEEP AND ABIDING CONCERN WITH THE POLITICAL STABILITY AND ECONOMIC RECOVERY AND DEVELOPMENT OF THE WHOLE REGION.

CONCLUSION

THE U.S.-MEXICO CHAMBER OF COMMERCE URGES THIS COMMITTEE NOT TO FAVORABLY REPORT S. 549.

HOWEVER, WE FURTHER URGE THAT IN THE COURSE OF THE CONSIDERATION OF THIS BILL AND ITS OVERSIGHT CAPACITY, THIS COMMITTEE SHOULD RECOMMEND FLEXIBILITY UNDER THE TEXTILE PROGRAM TO ACCOMMODATE THE TRADE OF U.S. APPAREL FIRMS OPERATING IN THE IN-BOND/MAQUILA PLANTS IN MEXICO UTILIZING U.S. TEXTILE MATERIALS. WE ALSO URGE YOU TO INSTRUCT THE ADMINISTRATORS OF THE TEXTILE PROGRAM TO GIVE FULL MEANING TO THE ROLE THAT U.S. MATERIALS ASSUME IN THE TEXTILE AND APPAREL TRADE BETWEEN THE UNITED STATES AND MEXICO WHICH IS MUTUALLY BENEFICIAL BOTH IN TERMS OF TRADE AND IN THE ECONOMIC STABILITY OF THE BORDER REGION.

FINALLY, AT A TIME WHEN THE U.S. IS ENCOURAGING MEXICO'S CURRENT TREND TOWARDS MARKET LIBERALIZATION, DEMONSTRATED BY MEXICO'S RECENT ENTRY INTO GATT, THE CHAMBER RECOMMENDS THAT ANY TEXTILE AND APPAREL IMPORT LEGISLATION APPROVED BY THIS SUBCOMMITTEE, MUST ACCOUNT FOR MEXICO'S POSITION AS A NEW ENTRANT AMONG SIGNIFICANT TEXTILE EXPORTING COUNTRIES. MEXICO IS LABORING TO OVERCOME DEEP ECONOMIC DIFFICULTIES AND WE MUST EMPHASIZE THAT IT IS VITAL FOR U.S. INTERESTS THAT MEXICO SUCCEED IN THIS EFFORT.

WRITTEN STATEMENT OF THOMAS G. TRAVIS

ON BEHALF OF THE UNITED STATES APPAREL INDUSTRY COUNCIL

My name is Thomas G. Travis. I am executive director and legal counsel to the United States Apparel Industry Council ("USAIC"). On behalf of USAIC, I would like to thank Chairman Bentsen and members of the committee for the opportunity of submitting this written testimony on S. 549.

The United States Apparel Industry Council was formed in June of 1986 to address the concerns of American multinational apparel and textile companies. The Council consists of U.S.-twin plant apparel companies utilizing the benefits bestowed by Item 807.00 of the Tariff Schedules of the United States. Our membership includes some of the largest American companies utilizing this important and vital tariff provisions; they include: Levi Strauss & Co., Cluett-Peabody & Co. Inc., The Lee Company, Salant, Fashion Enterprises Inc., Haggar Apparel Company, Farah Inc., Bend-n-Stretch Inc., and Tropical Garment Manufacturing Company.

We submit this statement to voice our concern that S.549 does not provide any recognition for products which are made wholly from U.S. fabric and are reimported under TSUS 807. For a range of policy reasons, we feel that products made with U.S. fabric, which is cut and formed in the United States, should receive more favorable quota treatment than goods which are made entirely from foreign components.

Our members expressed the same reservations with the textile and apparel legislation in the last Congress. Today our position is the same. Simply stated, why should products manufactured almost completely from U.S. components be placed under the same restraints as wholly foreign-made products? The Multifiber Arrangement itself recognizes that "consideration shall be given to special and different treatment to re-imports into a participating country for processing and subsequent reimportation, in light of the special nature of such trade without prejudice to the provisions of Article 3." The Protocol of Extension signed in 1986 goes even further saying that 807 imports should be given special, differential access and seperately treated when determinations are made concerning market disruption.

The rallying cry of those opposed to 807 imports has been that it encourages jobs to move offshore. We reject this unsupported allegation. We believe that 807 actually preserves jobs, by encouraging companies to use U.S. components in assembly operations rather than shifting completely to offshore production.

This is not an unsubstantiated allegation on our part, but one that is fully supported by the facts and by the independent studies which have been conducted on these issues. In September of 1970, the U.S. Tariff Commission published the results of its exhaustive year-long analysis of the economic effect of item 807. In relation to textile products the Report concluded that repeal of provision 807.00 for textile products would result in a transfer of sourcing from firms that assemble with U.S. components to "like products wholly produced by foreign manufacturers in the Far East," and for luggage the report said that "present users of the provision would readily procure their requirements by importing similar articles produced wholly abroad." Further, the study went on to say that "there is little basis to presume that there would be a significant increase in U.S. production should these tariff items be repealed. . . Repeal would probably result in only a modest number of jobs returned to the U.S., which likely would be more than offset by the loss of jobs among workers now producing components for export."

We recognize that the International Trade Commission is in the process of setting up its first major review of these provisions since the 1970 report. We wish to assure you that our members have and will continue to cooperate fully with the

Commission and its staff as the investigation proceeds. We are confident that the ITC's eventual report will reaffirm the desirable economic and political consequences which these provisions generate.

We have this confidence because we know that our member companies buy yarns, fabric, and ornamentation from U.S. manufacturers, thereby creating jobs in numerous U.S. domestic sectors. For example, one of our member companies has calculated that for every dollar spent in conjunction with their 807 manufacturing 81.3% goes for the direct support of U.S. jobs. This company sources components for their products from at least 12 different states contributing to the employment of over 30,000 people.

On a broader level, we have calculated that 807 imports from the Caribbean and Mexico, the area which accounts for the majority of our textile and apparel imports under 807, represents 72% U.S. value. Only 28 percent of the value-added is foreign. Imports of 807 still represents a relatively small market share of the total imports. In 1984 it represented only 3.9 percent of the market. In 1986 it had grown to 4.4% percent. Considering that at least 72% of the value of the 807 imports is American, we think this increase is good. We hope that the market share of 807 imports will continue to increase.

The Administration has already recognized the special circumstances surrounding imports of 807 from the Caribbean when using U.S. cut and formed fabric. In February, 1986, President Reagan announced a Special Access Program for textile and apparel imports from the Caribbean Basin. The program developed not only out of a desire to help Caribbean countries boost export revenues, but also to encourage the use of domestically produced fabric, formed and cut in the United States.

To date, bilateral agreements have been negotiated and signed by the governments of four Caribbean countries: Jamaica, the Dominican Republic; Haiti; and Trinidad and Tobago. While it is still too early to see the results of this new program, we expect the net result will be a higher percentage of U.S. value in 807 imports.

This legislation ignores the vital economic and security interests of our neighbors in the Caribbean Basin and Central America. More importantly, the legislation ignores the geopolitical benefits derived from tying the economies of the region together. While this factor is difficult to quantify in terms of dollars and cents, it is an extremely important issue to consider in determining the long-term national and international interests of the United States.

For all of these reasons the U.S. has aggressively encouraged these countries to direct their development efforts into the formation and expansion of export oriented industries. 807 assembly operations have contributed towards their export-led growth in non-traditional products as well as strengthening the economic and political ties of the region. The Textile and Apparel Act of 1987 would cripple the special relationship which has developed between U.S. manufacturers and firms in the Caribbean and Latin America. In light of the large percentage of U.S. value in 807 apparel imports, and the importance of helping the region to the South in maintaining both a stable economic and social base, we are convinced that products entered under TSUS item 807 should receive more favorable quota treatment than products which are wholly foreign. S. 549 does not provide this special treatment for goods entered under 807.

The Textile and Apparel Trade Act of 1987 would punish U.S. companies, which for competitive reasons, have moved their assembly operations offshore, but have continued to use U.S. fabric and components in their production, as opposed to U.S. companies which have moved their operations offshore altogether - using wholly foreign fabric, components and labor.

The Textile and Apparel Trade Act of 1987 would effectively destroy the incentives of 807 for textile and apparel products. While the duty incentive would still be in force, the limits it would place on growth offset the other benefits of using 807. Moreover, it is impossible to determine exactly what the affect of S. 549 would be on imports of textile and apparel products under 807 since the bill does not provide for country specific quotas. However, it is fair to say that without an exception for 807 imports, the current legislation which practically stops world growth in imports, would have a serious negative impact on joint production facilities and the desirable policy goals they further.

ORDER

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
LOS ANGELES ARTC CENTER
2555 East Avenue P
Palmdale, California 93550

ZLA 7210.20

SUBJ: FACILITY DRESS STANDARDS

1. PURPOSE. This Order establishes policy governing dress standards for air traffic employees at the Los Angeles ARTC Center.

2. EFFECTIVE DATE. May 1, 1987.

3. REFERENCE. FAA Handbook 7210.45 dated March 12, 1984.

4. BACKGROUND. At request of the Air Traffic Manager (ATM), the Human Relations Committee (HRC) provided their recommendatons on a facility dress standard. In conjunction with formulation of their recommendation, the HRC conducted a facility survey of Air Traffic employees. Survey participants numbered 173; this is 40% of the Center's 433 Air Traffic employees. The HRC provided their written input and survey results to the Air Traffic Manager on March 25, 1987. The line supervisors were also asked to provide feedback after having reviewed the results of the survey. After reviewing all sources of feedback, the policy contained in this order was developed. In almost every instance, this policy mirrors survey results.

. POLICY. Employees shall wear clean and well maintained attire appropriate for the conduct of government business. This attire calls for an appearance by employees which instills public confidence and which portrays a high degree of professionalism. In compliance with this policy, it is established that the following attire is unacceptable. This list is not all inclusive.

a. Faded blue jeans or non-designer type jeans.
b. Unclean or poorly maintained shoes/sneakers.
c. Casual sandals or thongs.
d. No socks or hosiery.
e. Any form of T-shirt or sweat shirt without a collar.
f. Shirts with slogans or large letter advertising.
g. Shorts.
h. Clothing or foot wear that is not [illegible] maintained or has holes in it.
i. Wearing of any type jeans or sneakers by supervisors during the day and evening shifts.
j. Hats.

D. EARLY
Traffic Manager
Angeles Center

bution: All Personnel

Initiated By: ZLA-

READ & INITIAL

Memorandum

U.S. Department
of Transportation
**Federal Aviation
Administration**

ect Facility Dress Standards

Date May 15, 1987

Reply to
Attn of

m Area Managers, Los Angeles Center
ZLA-3A/3B/3C/3D/3E

o All Control Room Personnel

In order to clarify Paragraph 4a of the Facility Dress Standards that became effective May 1, all control room personnel are expected to adhere to the following standards when wearing jeans. This list is not all inclusive.

ACCEPTABLE	NON-ACCEPTABLE
Jordache	Levis (non-designer)
Calvin Klein	Lee
Sergio Valente	Wranglers
Gloria Vanderbilt	Faded blue jeans (of any type)

Bill Denton
Bill Denton

Eilif Andersen

Mickey Burns

Nelson Ames

Mike Ficocello